



Federal Ministry  
for Economic Affairs  
and Energy

---

# Annual Economic Report 2016

---

**Making Germany fit for the future – taking the opportunities of digital transformation**



## Imprint

### **Publisher**

Federal Ministry for Economic  
Affairs and Energy (BMWi)  
Public Relations  
11019 Berlin  
[www.bmwi.de](http://www.bmwi.de)

### **Text and editing**

The Federal Ministry for Economic  
Affairs and Energy (BMWi)  
Editing team JWB 2016  
[JWB2016@bmwi.bund.de](mailto:JWB2016@bmwi.bund.de)

### **Design and production**

PRpetuum GmbH, Munich

### **Status**

January 2016

### **Illustrations**

@nt – Fotolia (Title)

This brochure is published as part of the public relations work of the Federal Ministry for Economic Affairs and Energy. It is distributed free of charge and is not intended for sale. The distribution of this brochure at campaign events or at information stands run by political parties is prohibited, and political party-related information or advertising shall not be inserted in, printed on, or affixed to this publication.



The Federal Ministry for Economic Affairs and Energy was awarded the audit berufundfamilie® for its family-friendly staff policy. The certificate is granted by berufundfamilie gGmbH, an initiative of the Hertie Foundation.



**This publication as well as further publications can be obtained from:**

Federal Ministry for Economic Affairs  
and Energy (BMWi)  
Public Relations  
E-mail: [publikationen@bundesregierung.de](mailto:publikationen@bundesregierung.de)  
[www.bmwi.de](http://www.bmwi.de)

### **Central procurement service:**

Tel.: +49 30 182722721

Fax: +49 30 18102722721



Federal Ministry  
for Economic Affairs  
and Energy

---

# Annual Economic Report 2016

---

**Making Germany fit for the future – taking the opportunities of digital transformation**



# Table of Contents

<b>Preface</b>	<b>5</b>
<b>Summary</b>	<b>7</b>
<b>I. The Federal Government's economic and fiscal policy</b>	<b>13</b>
A. Taking the opportunities of digital transformation, tackling current challenges	13
B. The Social Market Economy in the digitised world: developing the regulatory framework	21
C. Investing in modern infrastructure, systematically promoting innovation	24
D. Sound fiscal policy creates scope for action	28
E. Strengthening social cohesion, integrating refugees as well as possible	33
F. Pressing ahead efficiently with the energy transition	40
G. On the path to a stronger and more stable financial sector in Germany	47
H. Strengthening Europe, intensifying international relations	50
I. Economic growth and quality of life	56
<b>II. The Federal Government's projection</b>	<b>60</b>
<b>Overview: German economy on solid growth trajectory</b>	<b>60</b>
<b>The projection in detail</b>	<b>63</b>
<b>List of diagrams</b>	
Diagram 1: Rates of change in gross wages and salaries per employee	13
Diagram 2: Number of applications for asylum and general balance of migration since 1950	14
Diagram 3: Expenditure, revenues and net borrowing (Maastricht) by the state (in terms of nominal GDP)	29
Diagram 4: Drop in the Maastricht debt-to-GDP ratio since 2012 (Maastricht debt in terms of nominal GDP)	30
Diagram 5: Development in the employment rates in Germany and the EU	35
Diagram 6: Annual median equally-funded social security contribution rates as a percentage of gross assessable earnings	40
Diagram 7: Gross electricity generation in Germany in 2015 in TWh	42
Diagram 8: Federal research expenditure in the Energy Research Programme	46
Diagram 9: The interrelationship between economic growth, unemployment and satisfaction with life	57
Diagram 10: The development of economic output and employment	58
Diagram 11: GDP change in Germany (price-adjusted)	60
Diagram 12: Long-term development in construction investment (price-adjusted)	66
Diagram 13: Development of oil prices	67

**List of overviews**

Overview 1: Selected key figures for macroeconomic trends in the Federal Republic of Germany.....	7
Overview 2: Selected Federation measures to relieve the Länder and municipalities since 2013.....	32
Overview 3: Key figures of the 2016 annual projection.....	61
Overview 4: Technical details of the GDP growth projection (in percent or percentage points).....	62
Overview 5: Contributions towards GDP growth in the projection for 2016:.....	63
Overview 6: Comparison between the 2015 annual projection and actual outcomes.....	70

**List of boxes**

Box 1: The Federal Government's Digital Agenda.....	15
Box 2: Measures to promote the labour market integration of refugees.....	18
Box 3: Elements of a Federal Government investment strategy.....	25
Box 4: Results of the UN Climate Conference in Paris.....	45
Box 5: European Commission's Action Plan on Building a Capital Markets Union.....	50
Box 6: Investment protection in the Transatlantic Trade and Investment Partnership (TTIP).....	54
Box 7: Results of the German G7 Presidency.....	56
Box 8: Review of the 2015 Annual Projection.....	64



# Preface

## Making Germany fit for the future – taking the opportunities of digital transformation

We have left a year of crisis and war behind us, but the German economy performed well even in this difficult environment. Economic growth remains stable, the number of people in employment in Germany has reached a new record high, and unemployment is at its lowest level since German reunification.

Growth is particularly being driven by consumer spending and domestic demand as the populace benefits from the good economic development. Wages and salaries are rising, and not least the introduction of the statutory minimum wage has helped improve the income situation of workers in the low-wage sector.

The economic situation is good and creates a sound foundation on which we can tackle the challenges of the future. But there is no cause to feel excessively self-satisfied. Germany is experiencing a critical phase of change and upheaval. Global competition, the demographic development, the fundamental transformation caused by digitisation and the historic task of integrating hundreds of thousands of refugees are confronting us with great challenges. This is the backdrop against which we need to make Germany fit for the future.

Our country will need a substantial amount of additional investment if this is to happen. This investment is an expression of confidence in the future, and it is the key to higher competitiveness and a higher quality of life. The Federal Government has therefore increased public-sector investment by the Federation, and at the same time has helped the Länder and municipalities by providing them with €45 billion up to 2019. The Federal Government is working particularly hard to promote private-sector investment, especially by small and medium-sized enterprises.

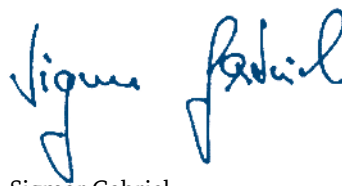
A higher investment rate fosters innovation. This is particularly true in view of the fundamental transformation being caused by digitisation. Here, the Federal Government has improved the environment for venture capital and start-ups in order to foster a new spirit of entrepreneurship amongst young and innovative companies. The Federal Government is continuing to invest in the broadband roll-

out and is establishing a new regulatory framework for the digital age in the revision of the Act against Restraints of Competition.

At the same time, we are aiming to achieve a public consensus on digitisation: We have made digital education a focus of the next IT Summit. We are updating vocational training regulations. We have set up digital centres of excellence for industry and skilled crafts, and showcases for the intelligent networking of the future in the energy sector. We want to take advantage of the opportunities of digital change whilst keeping individuals and companies in control of their own data.

Our economic policies continue to be based on the principles of the Social Market Economy. It has worked well, and will provide the platform for our country's future in the new digital world.

Yours,



Sigmar Gabriel

Federal Minister for Economic Affairs and Energy



# The 2016 Annual Economic Report of the German Federal Government

In accordance with Section 2 of the Act to Promote Economic Stability and Growth, the Federal Government hereby submits its 2016 Annual Economic Report to the German Bundestag and the Bundesrat. It also provides benchmark data for the overall orientation of the economy in 2016, in accordance with Section 3 of the Act.

In Part I of the Report, the Federal Government presents central priority fields of economic and fiscal policy. The German version of this Annual Economic Report also contains an Annex which provides a detailed inventory of the measures that the Federal Government has taken since the submission of the 2015 Annual Economic Report as well as the measures planned for 2016. As stipulated by the Act to Promote Economic Stability and Growth, Part II of the Report discusses the Government's projection of overall economic trends in the current year.

The Federal Government would like to thank the German Council of Economic Experts for its detailed and comprehensive analysis of economic developments in 2015

and the outlook for 2016, as well as for its discussion in its 2015/16 Annual Report of the guiding principles of economic policy. In the Annual Economic Report, the Federal Government comments on the German Council of Economic Experts' 2015/16 Annual Report.

In preparing the Annual Economic Report, the Federal Government discussed its economic and fiscal strategy with the *Länder* and municipalities within the framework of the Konjunkturrat für die öffentliche Hand (a government economic advisory council). This strategy was also discussed with union representatives as well as with the Gemeinschaftsausschuss der Deutschen Gewerblichen Wirtschaft (a joint committee that serves as a co-ordinating body for German business associations).

# Summary

1. Germany is enjoying solid growth. Despite the difficult international environment, Germany's economy grew by a total of 1.7% last year. Unemployment is at its lowest level since the country's reunification. Last year, real gross wages and salaries per employee recorded the highest increase for more than two decades. The budget of the Federation, the Länder, the municipalities and the social insurance funds was close-to-balance in 2015 for the fourth year in succession. Working from what is a fundamentally favourable situation, the Federal Government is continuing its economic and fiscal policy aimed at investment and sustainable growth. A key role here is played by digitisation. The Federal Government is embracing the digital transformation and is working with businesses, trade unions, the scientific community and civil society to put the conditions in place for successful digitisation. We need to adapt the regulatory framework of the Social Market Economy to the requirements of the digital world and – both at national and at European and international level – to create scope for innovation and to permit the individual to retain control of his/her data.

2. The upturn in the German economy softened somewhat in the second half of last year. The slower growth in the emerging economies meant less dynamic exports and corporate investment. However, industrial demand picked up again towards the end of the year. At the same time, busi-

ness sentiment improved. The labour market continued to develop favourably right up to the end of the year. The ongoing economic dynamism is mainly being driven by the domestic economy, and particularly by consumer spending and investment in housing construction. The low oil price and the comparatively weak euro exchange rate are also having a positive impact on economic development. On the other hand, the fall in growth in many emerging economies continued to reduce the rate of growth.

3. For 2016, the Federal Government expects an annual average increase in gross domestic product of 1.7% (cf. Overview 1). Adjusted for working days, gross domestic product will grow by 1.6% this year, or 0.1 percentage points more than last year. The continuing expansion of employment, together with the appreciable rises in income, forms the foundation of the ongoing dynamism in Germany's domestic economy. As in previous years, the additional employment will chiefly be created in the services sectors.

4. As demand picks up speed, the companies will gradually step up their investment over the course of the year. Despite this, inflationary tensions are not expected. Macroeconomic capacity utilisation will be generally normal. Profits will increase this year, not least due to falling oil prices; the share of wages is likely to decline slightly. Unit wage costs will mark a moderate rise.

## Overview 1: Selected key figures for macroeconomic trends in the Federal Republic of Germany<sup>1</sup>

	2014	2015	Annual projection 2016
Percentage change on preceding year			
<b>Gross domestic product (GDP), output approach</b>			
<b>GDP (real)</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>
Total employment	0.9	0.8	0.9
Unemployment rate in % (Federal Employment Agency definition) <sup>2</sup>	6.7	6.4	6.4
<b>GDP by expenditure (real)</b>			
Private consumption expenditure	0.9	1.9	1.9
Machinery and equipment	4.5	3.6	2.2
Construction	2.9	0.2	2.3
Domestic demand	1.3	1.6	2.3
Exports	4.0	5.4	3.2
Imports	3.7	5.7	4.8
External balance of goods and services (contribution to GDP growth) <sup>3</sup>	0.4	0.2	-0.4
Total gross wages and salaries per employee	2.7	2.9	2.6

1 Up to 2015 results of the Federal Statistical Office; National Accounts Status: January 2016.

2 In relation to the total labour force.

3 Absolute change (stocks/external balance) in per cent of pre-year GDP (= contribution to change in GDP).

5. A central assumption for the projection is that the financial sector will remain stable and there will be no negative developments in the eurozone or the world economy which will cause a significant rise in uncertainty in the economy.

6. The high influx of refugees will not initially have a significant impact on the labour market. But the influx will create enormous new challenges. In recent months, numerous steps have been taken at national and international level aimed at reducing immigration without placing a question mark over the fundamental right to asylum. The Federal Government is also trying to achieve rapid and sustainable integration into the labour market for refugees with good prospects of remaining in Germany.

7. Digitisation brings with it major opportunities for society and opens up enormous potential for additional value creation. It is primarily up to the companies to take an open-minded, flexible and innovative look at their business models and to develop new ones. The Federal Government is providing appropriate infrastructures and a digital-friendly environment to foster this digital transformation. It is continuing to develop the regulatory framework and is taking account of the special features of digital markets.

8. This spring, the Federal Government will present a draft for a ninth amendment to the Act against Restraints of Competition which will take account of the needs of the advances in digitisation. Also, the draft envisages an improvement in the private enforcement of antitrust law so that victims can obtain redress more quickly and more simply. The revision of the Act is also intended to ensure that companies cannot evade fines imposed by competition authorities by changing their legal structure. In future, parent companies will be liable for antitrust violations by their subsidiaries.

9. The Federal Government has launched a comprehensive modernisation of the law on public procurement and concessions. The aim is to create simple and user-friendly rules for public procurement which offer greater flexibility for the awarding of public contracts. Basically, communication between contracting authorities and businesses, and the exchange of documents, will take place online in future. This will make the procurement procedures quicker and more efficient. In this way, public procurement will keep pace with the digital transformation.

10. As a result of increasing digitisation, the storing and sharing of personal data has long since become part of

everyday life. The General Data Protection Regulation will put a uniform European legal framework in place for the processing of personal data. This is to take account both of basic EU data protection law and of justified interests of society in general and of the data processor.

11. In addition to protection for personal data, continuing digitisation necessitates further measures in the field of IT security. The Federal Government's IT Security Act has therefore significantly improved the security of IT systems by prescribing minimum standards and reporting requirements for major IT security incidents.

12. In order to give companies greater scope in which to act, the Federal Government is continuing to reduce red tape. The biggest improvements for business in 2015 come from the Act to Reduce Bureaucracy, which is lowering the burden by around €700 million, and the modernisation of procurement law, which is lessening the cost of red tape by more than a billion euros. In March 2015, the Federal Government introduced a new brake on bureaucracy in the form of a "one in, one out" principle. This approach is based on the concept that any new regulations affecting businesses have to be offset by a reduction of the same amount of bureaucracy.

13. With a view to facilitating access to venture capital for innovative start-ups, the Federal Government adopted measures in September 2015 to improve the policy environment for venture capital and start-ups in Germany. As announced in the cabinet's document containing key points on venture capital, it will continue this strategy. Germany is to become more attractive for venture capital, not least in terms of the tax rules.

14. The Federal Government is taking a comprehensive approach to strengthening both public and private-sector investment, and has already taken numerous measures in this legislative term to give a further boost to investment dynamism. In addition to this, the Federal Government is considering the following measures in particular in the context of its investment strategy in order to give a lasting boost to investment activity: the continuing development of the Joint Task for the "Improvement of the Regional Economic Structure", the establishment of a centre of excellence for planning and implementing municipal investment projects, and the improvement of the legal and institutional environment for private-sector financing of infrastructure. Also, the Federal Government increased investment in transport infrastructure in 2015 and will continue this process.

15. The infrastructure of efficient broadband networks is just as important as good roads and railways for a modern, digitally connected economy and society. Successful participation in the opportunities of digitisation requires nation-wide, high-performance network infrastructure. The Federal Government's aim is to vigorously continue the roll-out. In the liberalised telecommunications market, the broadband roll-out is primarily the task of the telecommunications firms. For the future, the availability of optical fibre must continue to increase substantially in order to enable internet access with constantly high bandwidth in the range of a gigabit per second. The Federal Government is supporting the expansion of broadband by adapting the legal framework accordingly. It is promoting the expansion of broadband on a technologically neutral basis in regions in which market-based expansion by private-sector investment alone is uneconomic.

16. In order to develop the potential for innovation offered by digitisation, the Federal Government has set up a number of technology promotion programmes and has initiated dialogue processes with the relevant stakeholders. The new High-tech Strategy brings together Federal Government activities to promote research and innovation. The Strategy aims at further strengthening Germany's position in the global rivalry between the knowledge-based societies. Also, the funding programmes for innovative SMEs have been made more transparent and stronger; the technology-neutral innovation policy gives structured backing to the process from the idea through to success on the market.

17. Digitisation and networking of industrial production processes along the entire value chain ("*Industrie 4.0*") is heralding customised production and products, along with efficiency gains, and is paving the way for new business models. Small and medium-sized enterprises in particular will find that digitisation is a key to maintaining their competitiveness. The Federal Government is supporting their efforts to master the challenges.

18. The Federal Government is successfully continuing its growth-oriented and sustainable fiscal policy. Last year, the overall public-sector finances were again in the black, at 0.5 % of GDP. This means that the public-sector budgets were close-to-balance for the fourth year in succession. The Federation made a substantial contribution towards this success. Germany is in compliance with the national and European fiscal rules and is thus helping to rapidly reduce the debt-to-GDP ratio.

19. The Federal Government's goal of cutting the debt-to-GDP ratio to less than 70 % will be attained by the end of 2016. This puts a platform in place from which to fulfil the plans to cut the debt-to-GDP ratio to below 60 % in a ten-year period.

20. At the same time, the Federal Government is placing a clear emphasis on public-sector investment. For example, the funding for efficient transport infrastructure has been clearly increased in the federal budget, and more money has been allocated to the Energy and Climate Fund. However, since the bulk of public-sector investment is realised by the Länder and the municipalities, the Federation is also providing considerable financial relief to those levels of government in order to enable them to finance their work in the fields of infrastructure, education and child-care services in particular. Further to this, the Federation is also providing more than six billion euros of funding to the Länder in 2015 and 2016 to help them cope with the tasks related to the reception and accommodation of refugees and asylum seekers in the coming years. Up to 2019, the Federal Government is providing them with a total exceeding €45 billion to give them additional scope for public-sector investment.

21. One key priority of the Federal Government in the field of tax policy is on greater international and European fairness in taxation. The fight in the OECD context against the shifting of profits across borders by companies which operate internationally is a central objective of taxation policy in the current legislative term.

22. If German tax law is to be able to continue to meet the needs of a modern society in a globalised world, it must be continuously developed. In order to prevent jobs in a business structure dominated by small and medium-sized enterprises from being endangered, the aim continues to be to alleviate in a constitutionally compliant manner the effects of inheritance and gift tax on the acquisition of corporate assets subject to preferential tax treatment. The Federal Government is also aiming to undertake a comprehensive reform of investment tax law.

23. Digitisation also opens up new possibilities to make the taxation procedure more efficient. Working together with the Länder, the Federal Government aims to keep modernising the tax collection processes. This includes the expansion and further development of IT support, a more service-oriented fiscal administration, and structural procedural changes.

24. The Federal Government is aiming to systematically re-order the fiscal relations between the Federal and Länder governments for the post-2019 period. The Federal Government would like to arrive at a result together with the Länder during this legislative term which meets the interests of the Federation and the Länder. In this context, the intention is also to re-orient regional economic assistance to fit the situation of structurally weak regions throughout Germany.

25. Last year, an average of 43 million people were in gainful employment, more than ever before. The trend towards higher employment is continuing. The current employment situation must not however be allowed to hide the fact that the ageing of the population will very probably result in a drop in the total labour force in the coming decades. Increased immigration of skilled workers and the integration of refugees into the labour market can alleviate but not reverse the consequences of demographic change. The Federal Government's economic policy therefore aims to continue to boost labour force participation. The policies include a further expansion of childcare services, which make a key contribution toward helping parents combine work and family life. In terms of the employment of older workers, the Federal Government is planning measures to flexibilise the transition from working life to retirement.

26. The rate of immigration has reached a new record due to last year's dramatic rise in refugee influx. In view of this, the Federal Government is working intensively to ensure orderly and controlled immigration of refugees. Irrespective of the future development of refugee numbers, it is already clear for those refugees in Germany who have the prospect of permanent residency that rapid involvement in working life is key for both economic and social integration. For this reason, the Federal Government has taken a large number of steps to speed up the procedures and to grant refugees with a good prospect of permanent residency more rapid access to the labour market. At the same time, the services on offer in terms of active labour-market policy have been expanded, and extra funding allocated for language and integration courses.

27. If there are to be more skilled workers in the medium to long term, the attractiveness and quality of vocational training is of key importance. In the context of the "Alliance for Initial and Further Training 2015-2018", the Federal Government is working with the business community, the trade unions, the Länder and the Federal Employment Agency to point every young person interested in voca-

tional training towards a "path" which offers a vocational qualification as quickly as possible.

28. The digitisation is going hand in hand with a far-reaching change in the world of work which extends much further than the use of information and communication technology. The Federal Government is working actively on this process. The "Work 4.0" dialogue process is creating the framework for a public and expert dialogue on the future of the world of work. The results of the dialogue process are to be presented in a White Paper at the end of 2016.

29. The introduction of the nation-wide statutory minimum wage on 1 January 2015 has improved the income situation of many workers in the low-wage sector. There have been clear wage increases for those on the lowest incomes, particularly in the eastern part of Germany. In numerous cases, the minimum wage must also have helped minijobs to be changed into jobs subject to social insurance payments. The Federal Government welcomes both developments. Negative macroeconomic employment effects have not yet been observed. This year, the Minimum Wage Commission, which mainly consists of representatives of the social partners, will review the level of the minimum wage for the first time.

30. Contracts for work and services and the supply of temporary workers are important instruments in an economy based on the division of labour, and enable companies to respond quickly to changing needs. The Federal Government therefore believes that both contracts for work and services and temporary agency workers are indispensable. However, effective action must be taken against illegal clauses in contracts for work and services. Also, the practice of supplying temporary agency workers should be oriented more to its core function.

31. Digitisation can also help to develop efficiency reserves and to improve care in the health sector. Big data applications can further improve understanding of how diseases arise. The E-Health Act will adapt the legal framework for a secure and trusted infrastructure – the telematics infrastructure – to current developments.

32. It is necessary to adapt the training of nurses to the changed supply structures and needs for nursing care and to make the training more attractive so that Germany can meet its growing need for skilled workers in the field of care for the elderly. In addition to the question of an adequate supply of skilled workers, the Federal Government

is also addressing the quality of nursing care. The Federal Government's Second Act to Strengthen Long-term Care is creating a new definition of the "need for long-term care", in which such care is guaranteed equally for people with physical and mental disabilities.

33. The energy transition is one of the Federal Government's key projects. The aim is to achieve an environmentally compatible and affordable energy supply whilst maintaining competitiveness and security of supply.

34. In terms of the expansion of renewable energy in the electricity sector, Germany is on course to meet the challenging targets it has set itself. From 2017, the funding rates for renewable energy are generally to be set by auction. This aims to make the funding more cost-effective, and to ensure that the path of expansion for renewable energy set out in the 2014 Renewable Energy Sources Act is adhered to. At the same time, stakeholder diversity is to be maintained. The specific auction models for the various renewable energy technologies are to be stipulated this year in a revision of the Renewable Energy Sources Act.

35. In order to guarantee security of supply on the electricity market in the face of rising shares of renewables-based electricity, the Federal Government is further developing the electricity market in the form of the Electricity Market Act. The aim is to strengthen market forces, to activate potential for flexibility, to increase transparency and to improve the European integration of the electricity market. In exceptional situations, a capacity reserve is to safeguard supply. Digital technologies are also making a major contribution towards the future flexibility of the electricity market. The Act on the Digitisation of the Energy Transition is intended to permit the legal basis to be put in place for a broad use of digital innovations in the energy sector.

36. Germany intends to meet its national climate targets. In order to attain the necessary cuts in greenhouse gas emissions, the Federal Government is banking on the additional climate change mitigation measures contained in the Climate Action Programme 2020 to close the reduction gap; these include the expansion of renewable energy and numerous measures to increase energy efficiency. As well as this, more use is to be made of low-emission CHP installations in the energy sector. A further contribution is made by the placing of older and inefficient lignite power stations on "security stand-by" and by other efficiency measures. On top of this, the Federal Government intends to adopt the 2050 Climate Action Plan in the summer of 2016. In addition to the national climate change mitiga-

tion efforts, the Federal Government is also calling for the implementation of the European and international climate targets and the continuation of the reform of European emissions trading adopted in 2015.

37. Boosting energy efficiency is important for the success of the energy transition and helps to mitigate climate change. Many of the measures adopted in the National Action Plan on Energy Efficiency were rolled out in the course of 2015. Building on the Action Plan, the Federal Government has also adopted the Energy Efficiency Strategy for Buildings. This Strategy shows how the goals of energy and climate policy can be achieved in the buildings sector.

38. Grid expansion is the backbone of a successful energy transition. The Act on Underground Cabling has put the policies in place for expanding the grid more quickly and gaining more public acceptance for it. Since a large proportion of the electricity from renewable energy is fed directly into the distribution grid, grid expansion at distribution grid level plays a key role in determining the success of the energy transition.

39. Energy research paves the way for the future of the energy supply. In addition to energy efficiency and renewable energy, the Federal Government's funding policy also focuses on new grid technologies and energy storage.

40. The financial market reforms aim at a lasting strengthening of confidence in the financial sector and to protect the taxpayer from having once more to rescue financial institutions in difficulty. In the market economy, those who take risks should be liable for them. A common approach is required at international level in order to stop market players from shifting across to less strictly regulated areas. For this reason, the Federal Government is calling for common European and international rules. The Federal Government will continue to work actively on the Commission's initiative to form a capital market union. Also, the Federal Government is improving the protection enjoyed by investors.

41. The entry into force of a single resolution mechanism at the beginning of this year means that the euro countries now have common instruments for the resolution of banks whose difficulties might pose a danger to the stability of the monetary union. The Federal Government explicitly rejects the European Commission's proposal for European deposit insurance. The Federal Government believes that this would create false incentives for Member States and banks, as financial risks would be shifted from the national banking sector to European level.

42. In the First and envisaged Second Act amending Financial Market Legislation, the Federal Government is implementing European rules to improve the transparency and integrity of the capital markets and investor protection. Also, the Federal Government has tightened up the transparency rules for securities traded on the stock exchanges. The Federal Government is continuing to press for the introduction of a financial transaction tax. It should be imposed on all financial instruments, wherever possible. It is important to avoid negative effects on small investors, the real economy and pension provision, as well as undesired shifts in the financial sector.

43. The work to deepen the Economic and Monetary Union must be continued. In the view of the Federal Government, the goal of future reforms must be to develop an internationally competitive Economic and Monetary Union which fulfils the promise of the European Union to promote democracy, the rule of law, security, stability, prosperity and jobs. This includes stable public finances, a modern polity, attractive investment conditions and an open single market. An important step towards reaching this goal is to implement measures that have already been adopted and to credibly comply with and apply existing rules and procedures. Furthermore, it is important to develop a long-term vision of the institutional future of the Economic and Monetary Union. This includes a willingness to consider treaty changes.

44. The economic and financial crisis saw a slowdown in private-sector investment activity which in some cases is continuing to this day. For this reason, the European Commission launched an investment initiative in November 2014. The European Fund for Strategic Investment (EFSI) is a key element of this initiative. Germany will substantially support the European investment initiative and provide approximately €8 billion via the KfW to finance EFSI projects.

45. Boosting the employment – particularly of young people – is one of the key challenges for Europe in view of continuing high youth unemployment in some Member States. The Federal Government is involved in numerous programmes in the context of European employment policy, and is also carrying out its own measures.

46. The Federal Government advocates a trade policy based on opening up markets, also to countries and regions outside Europe. At the same time, the multilateral trading system remains the focus of European and German trade policy. Strengthening the World Trade Organization is

therefore an important policy of the Federal Government. In view of the bogged-down negotiations in the current world trade round, the Federal Government is interested in more flexible, plurilateral negotiation formats. These should be engaged in with a view to subsequently feeding the outcomes into the WTO framework.

47. The aim of the talks on a Transatlantic Trade and Investment Partnership (TTIP) is to open the markets further on both sides of the Atlantic and to conduct a transatlantic regulatory dialogue. Here, the Federal Government aims to ensure that high standards of protection, particularly in the field of protection for the environment, workers, consumers and data, as well as IT security and public services, can be maintained or put in place, and that the precautionary principle is retained.

48. The Federal Government is boosting transparency in the sensitive area of military equipment exports by providing rapid and comprehensive information about licensed exports. The Federal Government is sticking to its strict rules governing the export of military equipment. It has further tightened the rules on small arms exports.

49. Economic growth is an essential foundation of prosperity in Germany. Strengthening economic growth is therefore a major goal of the Federal Government's economic and fiscal policy. The focus of economic and fiscal policy considerations is not only on the level of growth, but also on the quality of growth. Together with the business community and other stakeholders, the Federal Government is pursuing the goal of economically, environmentally and socially sustainable development. Not least, it is guided by the United Nations' 2030 Agenda for Sustainable Development and implementing this in Germany.

50. In the government strategy entitled "Living well in Germany – what's important to us", the Federal Government has embarked on the debate about economic growth and quality of life, as well as concepts to measure well-being. By the end of the first half of 2016, it will present a report which contains an up-to-date system of indicators and reporting on quality of life in Germany and which is to provide – alongside the goals and indicators of the national sustainability strategy – orientation for the future policies of the Federal Government.

# I. The Federal Government's economic and fiscal policy

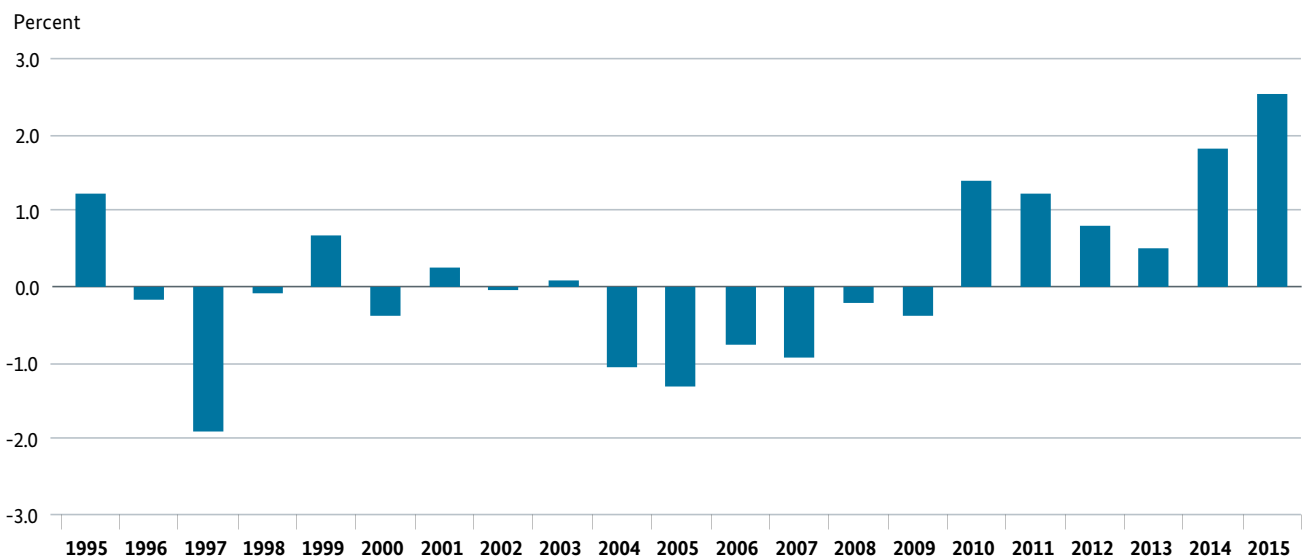
## A. Taking the opportunities of digital transformation, tackling current challenges

51. Germany is continuing to enjoy solid growth. Despite the difficult international environment, Germany's economy grew by 1.7% last year. Unemployment has dropped to its lowest level since reunification. The ongoing economic dynamism is mainly being driven by the domestic economy, particularly by consumer spending, but also by investment. At 43 million, the number of people in gainful activity has reached a new high. Last year, real gross wages and salaries per employee recorded the highest increase, of over 2.5%, for more than two decades; not least, this is due to the minimum wage. In view of the considerable degree of price stability, this meant tangible real increases in wages (cf. Diagram 1). The rising purchasing power of those in dependent employment is rooted in the favourable structural situation on the labour market and shows that broad sections of the population are participating in the good economic development. The sharp rises in incomes and the ongoing expansion of employment are continuing to fuel consumer spending. The low oil price and the comparatively weak euro exchange rate are also having a positive impact on economic development. On the other hand, the fall in growth in many emerging economies continued to reduce the rate of growth.

52. The good economic development seen in recent years is a contributory factor to the latest refugee influx into Germany. This is due to the fact that Germany's economic success is being noted both within Europe and beyond Europe's borders. But the influx will create enormous new challenges. The immigration of refugees last year alone creates massive additional tasks for fiscal and economic policy. Overall, the Federal Government believes that around 1 million asylum seekers entered the country last year. Approximately 477,000 people have applied for asylum in Germany (cf. Diagram 2). Factoring in the other migration movements, the Federal Republic of Germany may well have registered the largest net influx of people last year since 1950. In recent months, numerous steps have been taken at national and international level to reduce the refugee influx without placing a question mark over the fundamental right to asylum. The Federal Government is also trying to achieve rapid and sustainable integration into the labour market for refugees with good prospects of remaining in Germany (cf. Box 2).

53. At the same time, economic policy is continuing to face substantial medium-term and long-term challenges. These include the continuing stabilisation of the eurozone and ongoing demographic change. Also, Germany needs to remain equipped to cope with unexpected economic, political and social challenges, such as the Ukraine crisis of 2014

**Diagram 1: Rates of change in gross wages and salaries per employee**



Source: National accounts; nominal gross wages and salaries per employee adjusted for consumer price index inflation, year-on-year change; in-house calculations.

and the sharp rise in refugee numbers in 2015. For this reason, the Federal Government is orienting its economic and fiscal policy towards putting the growth dynamism on a permanent footing and boosting the potential gross domestic product.

The Federal Government is therefore continuing its economic policy aimed at investment and sustainable growth. A key role here is played by digitisation, which is increasingly impacting on the economy and society. The Federal Government is embracing the digital transformation and is working with businesses, trade unions, the scientific community and civil society to put the conditions in place for successful digitisation. It has defined seven specific fields of action in its Digital Agenda (cf. Box 1). Further to this, we need to adapt the regulatory framework of the Social Market Economy to the requirements of the digital world and – both at national and at European and international level – to create scope for innovation and to permit the individual to retain control of his/her data.

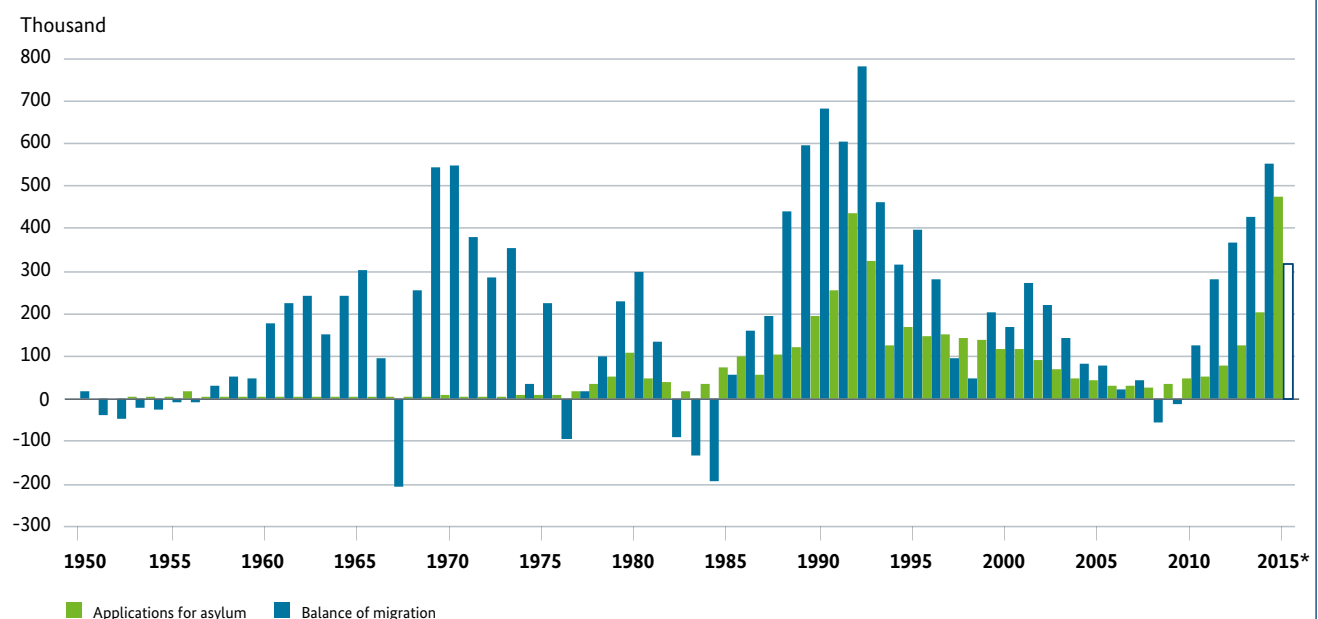
### Reorienting the regulatory framework in the digital world

54. The changes to everyday life, commerce and work caused by digitisation are similar in scale to those resulting

from the industrial revolution. They offer great economic potential in the form of new market opportunities, sales markets and jobs. They also offer a wide range of opportunities for individuals, such as a greater diversity of products, new ways to communicate, or the possibility to be flexible about when and where to work. Digitisation opens up massive potential for companies to add value – as long as they respond in an innovative and flexible manner to these developments and secure the confidence of users in digital processes via transparency, self-determination and IT security. The vast majority of these major changes are taking place in established companies. But new, high-growth start-ups are also responsible for the dynamism of these processes. These firms need an appropriate environment. For this reason, digitisation is creating a need to adapt legislation, e.g. in terms of competition law, effective consumer and data protection, and intellectual property rights.

55. In view of this, the Federal Government regards the digital transformation as one of the central policy challenges of our time. The intention is to take advantage of the major opportunities to the benefit of everyone who helps to make digitisation an economic and societal success. The regulatory framework of the Social Market Economy for a digital world must be developed further in an open and ongoing dialogue process with relevant stakeholders (cf. Box 1).

**Diagram 2: Number of applications for asylum and general balance of migration since 1950**



\* Note: the figure for the 2015 balance of migration only covers January to May.

Source: Federal Statistical Office, Federal Office for Migration and Refugees; status: January 2016.

56. As in the analogue world, it is competition that generates the greatest possible scope to develop innovations and growth. The incentive to be able to use innovative ideas to quickly build up strong market positions is essential for the innovative strength and dynamism of the digital transformation. However, many business models on digital markets are based on network effects which can help to create monopolies. There is therefore a need for effective control of market power on digital markets. In the ninth revision of the Act against Restraints of Competition, the Federal Government will take account of the special features of digital markets, particularly in the field of merger control. In this way, it will ensure that the potential for innovation by young start-ups will continue to given scope to develop.

57. Procurement law is also being thoroughly modernised so that public procurement can keep pace with digitisation. The aim is to have simple and user-friendly procurement rules. Also, public contracts are to be handled entirely online by October 2018.

58. Data are the raw material of the digital age. A large proportion of digital progress is based on the availability of ever growing quantities of increasingly complex data. The increasing availability of data is offering added value for many fields of economic activity and for the users of

digital services. Policy on the regulation of digitisation is focused on ensuring that individuals have control of their data and that companies can make legitimate use of data. It is necessary to ensure that users of digital applications are furnished with transparent information about the collection, storage and use of their data. Appropriate use of large quantities of data – be they data from machines, or data rendered anonymous or pseudonymous, or data whose collection has been agreed to – is of crucial importance for many companies. The use of data is increasingly becoming the foundation and core of value creation. The requisite expertise will be one of the key skills for economies in the future. Data protection and data-based value creation are not contradictions. Alongside data protection, a role will be played by the participation of users of digital services in the value created from data. In the light of this, an important role is played by uniform European and international rules, such as the European General Data Protection Regulation.

59. In addition to protection for personal data, continuing digitisation necessitates further measures in the field of IT security. Germany is well known for its many world-beating technology companies. They are rooted in the expertise and innovations of the German economy. In a world in which all the relevant commercial information, from the technical details of an industrial product through to accounting,

### Box 1: The Federal Government's Digital Agenda

The Digital Agenda sets out guidelines for the Federal Government's digitisation policy and packages measures into seven key fields of action:

- Digital infrastructure
- Digital economy and digital workplaces
- Innovative public administration
- Shaping digital environments in society
- Education, research, science, culture and media
- Security, protection and confidence for society and business
- European and international dimension of the Digital Agenda

The Digital Agenda is being implemented together with the business community, the social partners, civil society and academia as part of a comprehensive dialogue process. The annual IT Summit and the IT summit process provide the central implementation platform. They stimulate and accelerate the ongoing development of the Digital Agenda.

are held digitally, there are major market opportunities for technologies which protect knowledge and virtual assets. The Federal Government's IT Security Act has significantly improved the security of IT systems by prescribing minimum standards and reporting requirements for major IT security incidents. This clearly improves the protection afforded to critical infrastructure like energy supply or the financial and insurance sectors. Further measures are also enhancing the level of security of the federal administration's information and communications technology.

60. In addition to the expansion of digital infrastructure, the digital transformation is primarily reflected in far-reaching changes to industrial production. Value chains and the relations between manufacturers and clients are being placed on a new basis in "*Industrie 4.0*". Maintaining and strengthening the competitiveness of German industry is a top priority for the Federal Government. The Federal Government has therefore launched a comprehensive dialogue process on issues of "*Industrie 4.0*" and, beyond this, of the digitisation of the entire economy.

61. The success of the Social Market Economy is based not least on the innovative capacities of a competition-based economy. The digital transformation is an expression of constant innovation. It is driven by start-ups in particular. Thanks to its application-oriented research landscape and its highly innovative sector of small and medium-sized enterprises, Germany offers good preconditions for a dynamic start-up culture. However, young firms often face barriers: their growth is stifled by a lack of venture capital and by red tape. The Federal Government is planning a package of measures in order to improve the environment for venture capital financing (cf. Item (101)). The Act to Reduce Bureaucracy has also substantially reduced the burden imposed by federal regulations.

### **Investing to develop fresh potential for growth, pressing ahead with the digital transformation**

62. The Federal Government intends to safeguard and build on the economic success seen in recent years. Investment is key to continued survival in the face of the global competition for the best ideas, products and talents. The greater the advances in technological change, and the more difficult it becomes to secure the skills base in an ageing society, the more this is the case. The investment made in the coming years will also determine whether it proves possible to maintain a modern and efficient infrastructure right across our country and to make a success of the energy transition.

63. In this legislative term, the Federal Government has taken far-reaching decisions to boost public-sector investment. For example, additional funding is being made available for the transport infrastructure, the broadband roll-out, energy efficiency, and climate change mitigation (cf. e.g. Item (104)). At the same time, the environment for private-sector investment is being improved. Further to this, the Federal Government is assisting the Länder and municipalities so that they can cope better with their responsibilities in the fields of childcare, schools and universities, immigration and urban planning. Up to 2019, the Federal Government is providing them with more than €45 billion to give them additional scope for public-sector investment (cf. Overview 2).

64. The Federal Government aims to raise Germany's macroeconomic investment ratio to above the OECD average. It will therefore continue to follow a holistic approach to strengthening investment, and will continue to broaden these activities in a targeted fashion. In doing this, the Federal Government is responding to recommendations made by the European Commission, the OECD, and the IMF, all of which have highlighted the need for greater and better investments in Germany. The expert commission tasked with "Strengthening investment in Germany" also stressed the macroeconomic significance of higher private-sector and public-sector investment. It presented a large number of proposed measures in April 2015, and the Federal Government has examined these. The Federal Government will take up some of the proposals and implement them before the end of this legislative term as part of an "investment strategy" (cf. Box 3).

65. One central element of the Federal Government's investment strategy is the promotion of the digital transformation (cf. Box 3 and Items (110) f.). By 2018, nationwide high-speed networks offering transmission rates of at least 50 megabits per second are to be in place. In view of the pace of technological progress and the general rise in demand, this can only represent an interim stage. The broadband roll-out is primarily the task of the telecommunications firms. In the context of the Digital Germany Network Alliance, these agreed to invest a total of €8 billion in the broadband roll-out in 2015 alone. For the future, the availability of optical fibre must continue to increase substantially in order to enable internet access with constantly high bandwidth in the range of a gigabit per second.

The mobile use of data is also continuing to grow rapidly in Germany. The mobile communications networks of the future will have to enable far more mobile applications

than is currently the case. 5G, the next generation of mobile communications, will pave the way for this. Germany is already putting the conditions for this in place.

Sound government finances are a fundamental prerequisite for the Federal Government's pro-growth and pro-investment economic and fiscal policy. The 'debt brake', which is enshrined in the German Basic Law, leaves sufficient scope to avoid having to change investment plans if steps are necessary to respond to unexpected shortfalls on the revenue side. So strengthening investments and maintaining Germany's deficit rules are not mutually exclusive aims. All levels of government should ensure, when deciding on their budgets, that the pro-growth design of the budget complies with the constitution. In particular, it is always necessary to check whether sufficient attention has been paid to the needs in the forward-looking fields of expenditure – investment, education, research and development. Investment in education and training is of particular importance against the background of digitisation, demographic change and increased immigration. The Federal Government is therefore calling for further improvements. The full assumption of monetary benefits relating to the Federal Educational Assistance Act (BAföG) has resulted in relief of €1.17 billion per year for the Länder since last year, and this money is now available for additional investment in education. Through the Higher Education Pact, the Federation is continuing to create 760,000 new places for students at higher education facilities (cf. Item (128)). At the same time, the Federation is also strengthening vocational training, e.g. in the form of "master craftsmen's Bafög" and the Alliance for Initial and Further Training (cf. Item (150)). Not least, the Federal Government is also calling for a wider availability and better quality of education for very young children in the context of the expansion of childcare services (cf. Item (146)).

### Maintaining the stability of the public finances

66. The Federal Government is successfully continuing its growth-oriented and sustainable fiscal policy. In 2015, the German state budget achieved a surplus of 0.5 % of GDP. In 2014, the overall public-sector debt-to-GDP ratio was still as high as 74.9 % of GDP. This year, it will drop below 70 %. The Federal Government's fiscal policy is boosting confidence in the German economy and is helping to ensure that the burden imposed on future generations does not grow further. Germany is thus contributing to the stability of the European economic and monetary area.

67. The Federal Government took numerous decisions in 2015 to help the Länder and municipalities with accommodation and support for refugees. It is providing more than €6 billion for this in 2015 and 2016. Further to this, an additional amount of around €3.9 billion has been earmarked to cope with the influx of refugees in the 2016 federal budget. Some of this money is intended to help the medium-term integration into the training and labour market for all those who already have or will be granted a right to remain in Germany. The rapid integration is important, both for the quality of life of those affected, and for prosperity in general.

68. In addition to a balanced and sustainable spending policy, on the revenue side the Federal Government is placing a key priority on greater international and European fairness in taxation. The Federal Government is working in the OECD context to effectively limit the shifting of profits across borders by companies which operate internationally. It is also pressing hard in the European Union to tackle harmful tax competition and tax evasion. The taxation procedures must be modernised further. Many procedures can be designed more efficiently through the expansion and development of information technology, both for the administration and for the taxpayers.

69. At the end of 2019, the rules on the distribution of the funding from Solidarity Pact II will expire. In view of this, the Federal Government is aiming to systematically re-order the fiscal relations between the Federal and Länder governments. In this context, the intention is also to re-orient regional economic assistance to fit the situation of structurally weak regions throughout Germany.

### Good work and social security – in the digital age

70. The digitisation is going hand in hand with a far-reaching change in the world of work which extends much further than the use of information and communication technology. It is changing the content of work and the skills requirements, the conditions of work and labour relations, job security and access to work. Job descriptions are changing, jobs are disappearing and new jobs and fields of work are emerging. Making further progress on labour market participation remains an important task (cf. Item (153)).

71. This change is not taking place abruptly. Rather, digitisation offers the opportunity to make jobs more attractive, efficient, flexible, and accessible to all. In order to take advantage of this opportunity, the Federal Government is

working to develop the social policies and labour laws for a digitised work environment (Work 4.0). High-value jobs should be generated by the digital transformation. The Federal Government launched a comprehensive dialogue process on “Work 4.0” last year. The outcome is to be set out in a White Paper at the end of this year.

72. The introduction of the nation-wide statutory minimum wage on 1 January 2015 has improved the income situation of many workers in the low-wage sector. The negative macroeconomic employment effects of a minimum wage of €8.50 which were feared by parts of society have not been observed so far. Initial statistics indicate that the minimum wage has so far had a positive impact on the employment structure. This year, the Minimum Wage Commission, which mainly consists of representatives of the social partners, will review the level of the minimum wage for the first time.

73. The rapid labour market integration of those migrants who have a good prospect of staying in Germany is of key significance for the economic and fiscal implications of the current rate of refugee influx. Only if this proves possible

can the refugee immigration make a contribution towards securing the availability of skilled labour and thus help to alleviate the impact of demographic change. For this reason, the Federal Government has improved the legal preconditions for the integration of refugees into the labour market (cf. Box 2). The measures include the acceleration of asylum procedures and easier access to the labour market, as well as active labour market policy services and additional funding for language and integration courses.

74. The positive employment situation is contributing to a structurally favourable situation in the various fields of social insurance. The contribution rate for statutory pension insurance can therefore be kept at 18.7% in 2016. In terms of the employment of older workers, the Federal Government is planning measures to flexibilise the transition from working life to retirement.

75. Statutory health insurance schemes and social insurance for long-term care are also benefiting from additional revenues due to the high level of employment. In view of the demographic change and the advances in medicine and medical technology, however, spending is also expected to

## Box 2: Measures to promote the labour market integration of refugees

The Federal Government has substantially simplified access to training and employment for asylum seekers and for persons with temporary suspension of deportation, and has also adopted numerous other measures to integrate refugees into the labour market, including:

- Shortening of the waiting period to a uniform duration of three months
- Exceptions from the labour-market test for asylum seekers and for persons with temporary suspension of deportation in the case of highly-qualified professionals and skilled professionals in occupations where there is a skills shortage
- Relaxation of the ban on temporary agency employment for asylum seekers and persons with temporary suspension of deportation
- Greater legal certainty in the context of vocational training
- Better access to internships and courses of introductory training for asylum seekers and persons with temporary suspension of deportation
- Rapid and proficient processing of applications to have foreign educational qualifications recognised
- Early-stage provision of active employment promotion services
- Support for companies integrating refugees in training and jobs
- Opening up of integration courses for asylum seekers with good prospects of remaining in Germany and for certain persons with temporary suspension of deportation

rise. The provision of a high-quality service close to where people live, and rapid access to medically useful innovations remain important goals in a time of demographic change. This necessitates an efficient healthcare system and a sustainable financing structure. At the same time, the further development of the healthcare system can give a key boost to growth and jobs, both within the health system and in the healthcare sector.

76. Digitisation can also help to develop efficiency reserves and to improve care in the health sector. A secure and trusted infrastructure – the telematics infrastructure – is fundamental to the utilisation of the potential of E-Health applications. In the E-Health Act, the Federal Government has taken a further step towards the digital networking of the health sector.

### Continuing the energy transition efficiently

77. The energy transition is one of the Federal Government's key projects. The aim is to achieve an environmentally compatible and affordable energy supply whilst maintaining competitiveness and security of supply. With a view to achieving this, the Federal Government revised the Renewable Energy Sources Act in 2014. Excessive subsidies were removed, fixed deployment corridors introduced, and the burden of the subsidies was shared more fairly. This interrupted the repeated increases in the cost of funding under the Act. This year, the Federal Government intends once again to amend the Act. By 2017, auctions are to convert the financial support from cost-based, administratively fixed rates to funding rates determined by competition. The aim is to make the funding more cost-effective, and to ensure that the path of expansion for renewable energy set out in the 2014 Renewable Energy Sources Act is adhered to. At the same time, stakeholder diversity is to be maintained.

78. In order to guarantee security of supply in the face of rising shares of renewables-based electricity, the Federal Government is further developing the electricity market in the form of the Electricity Market Act. The aim is to strengthen market forces, to activate potential for flexibility, to increase transparency and to improve the European integration of the electricity market. In exceptional situations, a capacity reserve is to safeguard supply. Digital technologies are also making a major contribution towards the future flexibility of the electricity market. The Act on the Digitisation of the Energy Transition is intended to permit the legal basis to be put in place for a broad use of digital innovations in the energy sector. In view of the sensitivity

of private consumption data, the Act provides for strict data protection guidelines.

79. Germany intends to meet its national climate targets. The aim is to cut greenhouse gas emissions by at least 40% by 2020 and by 80-95% by 2050 from 1990. In order to attain the necessary cuts in greenhouse gas emissions, the Federal Government is banking on the additional climate change mitigation measures contained in the Climate Action Programme 2020 to close the reduction gap by 2020; these include the expansion of renewable energy and numerous measures to increase energy efficiency. As well as this, more use is to be made of low-emission CHP installations in the energy sector. A further contribution is made by the placing of older and inefficient lignite power stations on "security stand-by". The Federal Government intends to adopt the 2050 Climate Action Plan in the summer of 2016.

80. In addition to the national climate change mitigation efforts, the Federal Government is also calling at European and international level for solutions which bring together climate change mitigation, security of supply and a competitive energy supply. The focus here is on implementation of the European and international climate targets and the continuation of the reform of European emissions trading adopted in 2015 as a key European instrument to mitigate climate change.

### Strengthening Europe's institutions

81. The European Union stands for peace and prosperity. Despite the successes in European integration, the financial and economic crisis revealed major weaknesses in the European architecture, particularly within the eurozone. Even if the Economic and Monetary Union is now much better equipped in institutional terms with the European Stability Mechanism (ESM), the banking union and the improved rules on financial and economic policy supervision than it was before the crisis, the work on deepening it must be continued. In addition to compliance with the existing rules, it is important to fully implement the banking union. The risks of states and banks must be separated even more clearly. In the medium term, reliable rules for potentially necessary restructuring of public-sector debt and an institutional separation of banking supervision and monetary policy are required at European level. On the other hand, the Federal Government explicitly rejects the European Commission's proposal for European deposit insurance.

82. The recovery within Europe is continuing. Both the eurozone and the European Union as a whole are registering moderate economic growth and a slight drop in unemployment. Nevertheless, the number of unemployed in large areas of the EU remains at a high level. In addition to the institutional modernisation of the European financial markets, many countries in the EU therefore need to undertake further structural reforms. This is particularly true of Greece, which is receiving further financial assistance in the context of a third adjustment programme from the European Stability Mechanism.

### **For open world trade and responsible commerce in globalisation**

83. Germany has profited greatly in recent decades from the liberalisation of global trade relations. The Federal Government is therefore an advocate of a policy which aims at further market liberalisation, including in relation to states and regions outside Europe, and thus makes a contribution to more growth and employment.

84. Alongside the work being done at multilateral level, the Federal Government is also working towards bilateral free trade agreements. Bilateral free trade agreements improve market access opportunities for German and European companies in non-EU countries and make it possible to actively shape international trade rules. They can also pave the way towards multilateral trade liberalisation. For this reason, the Federal Government is supporting the European Commission as it negotiates a Transatlantic Trade and Investment Partnership (TTIP). The Commission's proposal for modern investment protection, which takes up key German proposals, aims at greater transparency, investment courts with permanent judges and preserves the right to regulate for public policies.

85. As international trade relations deepen, ethical questions of trade policy also gain in importance. The Federal Government is in favour of responsible commerce in Germany and abroad. For example, as advocated by Germany the G7 have agreed to review and thereby improve the work of their National Contact Points for the OECD Guidelines for Multinational Enterprises; these guidelines contain comprehensive recommendations for responsible corporate activity. Further to this, the reporting requirements for certain large companies have been extended to embrace non-financial information. The Federal Government is continuing to call for greater restrictions and controls on the international arms trade. With regard to the export of military equipment,

the Federal Government will in future apply even stricter rules, particularly governing small arms exports.

### **Focusing more on the quality of economic growth**

86. Economic growth is an important prerequisite if we are to cope with current challenges, and it enhances the quality of life of people living in Germany. For this reason, it remains an important indicator – if not the only one – guiding the Federal Government's economic policy. The international debate on measuring well-being, and the findings of the Study Commission on "Growth, Prosperity, Quality of Life", show that GDP is only of limited significance as an indicator of well-being. The Federal Government's strategy entitled "Living well in Germany – what's important to us" engages in this debate.

87. The Federal Government's economic and fiscal policy already takes account of conflicting objectives which can arise between the level of economic growth and other policy goals. The focus of economic policy decisions is not on an unconditional rise in the rate of growth. Rather, the Federal Government always gives consideration to the quality of the growth process. The latter is reflected in, for example, increasing energy efficiency, employment intensity, fiscal sustainability and the distribution of additional incomes. Not least, the quality of economic growth depends on its impact on the quality of work.

88. By adopting the United Nations' 2030 Agenda for Sustainable Development, the heads of state and government established a milestone for a global shift towards a more sustainable approach to economic activity. The German sustainability strategy provides a major framework for the national implementation of the 2030 Agenda.

89. Giving systematic consideration to the quality of economic growth is in harmony with the principles of the Social Market Economy. Open markets and a clear orientation towards competition form the institutional foundation for innovation and economic growth. The correction of market failure, the strengthening of societal solidarity and a sustainable approach to economic policy also ensure that, in the long term, economic growth will lead to a higher quality of life.

## B. The Social Market Economy in the digitised world: developing the regulatory framework

90. The changes to everyday life, commerce and work caused by digitisation are similar in scale to those resulting from the industrial revolution. They offer major societal opportunities, such as new forms of social interaction or the increased possibilities to flexibilise the place and time of work. Furthermore, they open up enormous potential for additional value creation. This presupposes that companies make the most of new market opportunities, develop new sales markets and create new job opportunities. It is primarily up to the companies to take an open-minded, flexible and innovative look at their business models and to develop new ones. The Federal Government is providing appropriate infrastructures and a digital-friendly environment to foster this digital transformation. The German Council of Economic Experts also highlights the great potential to boost labour productivity offered by the digital transformation (cf. GCEE Item 664) and calls on policy-makers to establish an appropriate environment for this at national and European level.

The Federal Government is continuing to develop the regulatory framework and is taking account of the special features of digital markets. It will thoroughly modernise the Act against Restraints of Competition and the legislation on public procurement. Data protection will be improved, and the requirements to be met by IT security will be increased in order to strengthen the rights of individuals to control their own data.

In order to enable companies to make better use of the opportunities of the digital transformation, the Federal Government is continuing to reduce the burden of red tape and is improving the preconditions for innovative start-ups. Also, the Federal Government welcomes the European Commission's ambitious timetable for the digital single market; it wants full use to be made of the potential of digitisation across the whole of Europe in order to boost the competitiveness of the European economy.

### Modernising the Act against Restraints of Competition

91. In order to continue to deliver functioning competition and to keep the markets open, the Federal Government will modernise competition law in the Act against Restraints of Competition. This spring, it will present a draft for a ninth amendment to the Act which will take account of the needs of the advances in digitisation. The focus of the draft is on

an improvement in the private enforcement of antitrust law so that victims of violations of competition law can obtain redress more quickly and more simply. In this way, the Federal Government is implementing a corresponding EU directive. The revision of the Act is also intended to ensure that companies cannot evade fines imposed by competition authorities by changing their legal structure. In future, parent companies will be liable for antitrust violations by their subsidiaries.

Examples from the digital economy show that in some circumstances innovative start-ups can be taken over by large, established firms without this being subject to any controls by the competition authorities. The reason for this is that merger control has so far only covered mergers of companies whose turnover exceeds a certain threshold. In many cases, this is not the case for start-ups. Nevertheless, their business ideas can be of great commercial significance for the established company acquiring them and result in macroeconomically undesirable market dominance. The Federal Government therefore proposes that merger control be extended to cases in which, despite the acquired company having a low turnover, the transaction value of a take-over (e.g. the purchase price) is particularly high.

Not least, competition policy needs to pay particular attention to "multisided" platforms, which are common in the digital economy in particular, e.g. in the provision of internet services such as search engines or social networks. A particular characteristic is that the attractiveness of a network for the individual user grows in line with the overall number of users. This can encourage tendencies towards concentration and strong market positions for platforms. In turn, this can lead to a risk of misuse or represent a market entry barrier for competitors. This is particularly true if the platform operator also displays or offers on its platform its own services which are competing with the services of the users of its platform. The Federal Government will examine how to arrive at a better assessment of the special features of internet platforms (network effects, platform interdependencies, innovation pressures, user data, apparently free-of-charge services) in terms of their competitive situation.

92. Digitisation is also changing competition between the media. In order to protect the diversity of the press, the Federal Government will draw up antitrust rules governing cooperation between newspaper companies below the editorial level. This national arrangement will have to comply with EU cartel law, which takes precedence.

### Continuing the modernising of legislation on public procurement

93. The Federal Government has launched a comprehensive modernisation of the law on public procurement and concessions. Three new EU procurement directives must be implemented in German law by 18 April 2016. These directives cover the procurement of public-sector works, supply and services contracts as well as concessions whose value reaches certain thresholds prescribed by the EU. In the course of the reform, the statutory basis of procurement law will be thoroughly modernised in the Act against Restraints of Competition. Three new ordinances will be adopted to set out the details of the procurement procedure. The aim is to create simple and user-friendly rules for public procurement which offer greater flexibility for the awarding of public contracts. The procedures for the award of public contracts are to be handled entirely online by October 2018. Basically, communication between contracting authorities and businesses, and the exchange of documents, will take place online in future. This will make the procurement procedures quicker and more efficient. In this way, public procurement will keep pace with the digital transformation.

Further to this, the reform should make it easier for contracting authorities to include social, environmental and innovative aspects of procurement in the context of the need for procurement that is economic. Companies must comply with all obligations imposed by law – including social and labour legislation such as the statutory minimum wage – when executing a public contract. In this way, sustainable procurement is to be strengthened and developed at federal level. Scope for the public sector, e.g. in the provision of services of general economic interest, is to be retained. It is to become possible to award contracts for the provision of social services, such as the integration of job-seekers, in a simplified procedure. Once the EU procurement directives have been implemented, the need to adapt the rules on contract awards below the EU thresholds will be speedily reviewed.

In connection with the procurement law reform, the Federal Government will consider the establishment of a central nationwide procurement blacklist. This should ensure that contracting authorities have nationwide information about economic offences. More online procedures are to be used in future for the invoicing of public contracts.

94. The Federal Government's eInvoicing Act will implement in German law the European Directive on electronic

invoicing in public procurement. Improved preconditions for data exchange, e.g. via standardised interfaces or the use of uniform data formats, are to reduce market entry barriers. The Act will also apply to all public contracting authorities of the Federation in the fields of water, energy and transport services (sectoral contracting authorities), and to authorities granting concessions. The Act to Promote Electronic Government will be amended accordingly.

### Ensuring data security and maintaining people's control over their data

95. As a result of increasing digitisation, the storing and sharing of personal data has long since become part of everyday life. Following the successful conclusion of the trilogue negotiations in December 2015, the General Data Protection Regulation (GDPR) will probably enter into force in 2018 and will put a uniform European legal framework in place for the processing of personal data. This is to take account both of basic EU data protection law and of justified interests of society in general and of the data processor. The aim is to strike a balance between the risks of digitisation for private life and the benefits of free movement of data within the European internal market.

The GDPR will harmonise rules for the processing of personal data by private-sector companies and public-sector bodies across the EU. The "lex loci" principle also ensures that companies based outside the EU must comply with the new EU data protection legislation if they offer goods and services in the EU. On the one hand, this strengthens consumer confidence in digital services and on the other it creates a level playing field for international competition. It is to become possible to impose tougher sanctions against violations of data protection law.

96. In addition to protection for personal data, continuing digitisation necessitates further measures in the field of IT security. Critical infrastructures like energy supply or the financial and insurance sector must enjoy particular protection against unauthorised access. In view of the significance for society of their services, the operators of critical infrastructures bear a particular responsibility for public security. The Federal Government's IT Security Act has therefore significantly improved the security of IT systems, e.g. by prescribing minimum standards and reporting requirements for major IT security incidents.

97. The availability of freely accessible wifi in Germany lags far behind that of other countries. One major reason for

this is the lack of clarity about the extent to which a hot spot operator is liable for any illegal activity on the part of its users. In the Second Act Amending the Telemedia Act, the Federal Government is creating legal certainty for all providers of public wifi hot spots. This makes it clear that the liability privilege contained in the Telemedia Act basically applies to all wifi operators: they are not liable to pay damages and are not criminally liable for information they pass on. In this way, the Federal Government is promoting the spread of wifi in Germany and making it easier for consumers to easily obtain mobile access to the internet in as many places as possible. The Act is expected to enter into force in the second half of 2016.

### Cutting red tape – creating scope for business activity

98. In order to give companies greater scope in which to act, the Federal Government is continuing to reduce red tape. The “2014 Better Regulation” programme of work aims to reduce the compliance costs of laws via nationwide rules for individuals, companies and administration, to flag up ways to lower the burden, and to further improve legislative processes. The biggest improvements for business in 2015 came from two pieces of legislation: the Act to Reduce Bureaucracy, which is lowering the burden by around €700 million, and the modernisation of procurement law (cf. Item (93)), which is lessening the cost of red tape by more than a billion euros. Overall, the compliance costs for business in 2015 were reduced on balance – i.e. taking the overall view of increases and reductions in burdens contained in all Federal Government legislation in that period – by approximately €1.4 billion. The Bureaucracy Cost Index dropped below its initial level of 100 for the first time last year, and ended 2015 at 99.1.

In March 2015, the Federal Government introduced a new brake on bureaucracy in the form of a “one in, one out” principle. This approach is based on the concept that any new regulations affecting businesses have to be offset by a reduction of the same amount of bureaucracy. Exceptions from the “one in, one out” principle apply to aspects like the full implementation of EU rules and rulings by the Federal Constitutional Court. To the extent that new compliance costs cannot be offset within the same piece of legislation, the Federal Government is to present a different reduction in bureaucracy within a year.

Since the beginning of 2016, the federal ministries have been furnished with guidelines for the systematic consideration of the needs of SMEs in the course of regulatory

impact assessment. Also, the Federal Government has asked the Federal Statistical Office to find out more about the way individuals and companies perceive cooperation with authorities and agencies. The findings are intended to help with the identification of new measures for simplification and cutting red tape. The core aims are to make legislation easier to understand and to drive eGovernment forward (cf. [www.amtlich-einfach.de](http://www.amtlich-einfach.de)).

99. The Federal Government has continued the development of the EU ex-ante procedure to avoid unnecessary red tape being created by new EU legislation. The procedure aims to make visible the costs involved in proposed EU legislation and, working from this, to systematically promote solutions at EU level which entail low compliance costs. The new development streamlines and consolidates the procedure and sets it up in a way that enables far more meaningful statements about the anticipated burdens to be generated than has been the case.

### Stimuli for innovative start-ups

100. In the digital economy, crowdfunding is becoming an increasingly important source of funding for innovative business ideas. In this financing method, a number of capital providers are recruited via the internet; usually, a large number of people provide relatively small amounts to help finance a venture. The Retail Investors Protection Act, which entered into force at the beginning of July 2015, provides crowdfunding with a clear and reliable legal framework which takes account of consumer interests and at the same time creates an attractive environment for what is still a young sector in Germany. For example, in the case of crowdfunding of up to €2.5 million (with shares of up to €10,000 per investor and project), the requirement to publish an expensive and detailed sales prospectus is dropped. Instead, it is sufficient to publish a capital investments information sheet.

101. With a view to facilitating access to venture capital for innovative start-ups, the Federal Government adopted measures in September 2015 to improve the policy environment for venture capital and start-ups in Germany. In particular, these envisage an expansion of the INVEST grant programme this year and an extension of the potential beneficiaries to include fund investors. Also, the taxes on capital gains and losses are to be reimbursed pro rata. Overall, public funding totalling about €2 billion is available for new venture capital investments. Further to this, Germany is to become more attractive for venture capital,

not least in terms of the tax rules. The Federal Government will continue the open-ended discussion on the future tax treatment of capital gains from free floating shares. Here, it will ensure that no new burdens are imposed on the financing of young innovative companies. The Federal Government will further improve the policy framework for innovative companies.

102. The measures to support start-ups also form part of the “new age for entrepreneurship” initiative. The initiative makes the support available for entrepreneurs more visible with a view to boosting the rate of new start-ups in Germany. To ensure that new start-ups can be realised as easily and as online as possible, also on a cross-border basis, the EU Member States are to provide single points of contact. They offer a one-stop shop with access to all information and procedures needed for an engagement in commercial activity. In December 2015, the conference of economic affairs ministers adopted guidelines for the establishment of a “single point of contact 2.0”.

### **C. Investing in modern infrastructure, systematically promoting innovation**

103. The Federal Government is taking a comprehensive approach to strengthening both public and private-sector investment, and has already taken numerous measures in this legislative term. Some of these measures were already reflected in the 2015 federal budget. For example, federal spending on investment rose by one-fifth against 2014 to almost €30 billion. This represents an increase in the proportion of spending on investment from 8.5 % of the federal budget in 2014 to 9.7 % last year. Since almost two-thirds of public-sector investment in Germany is undertaken by the Länder and municipalities, the Federal Government's investment-oriented economic and fiscal policy is aimed at all levels of government (cf. Item (128)).

104. The Federal Government aims to raise Germany's macroeconomic investment ratio to above the OECD average. It will therefore strengthen the rate of investment further, and will adopt additional measures as part of its “investment strategy” before the end of this legislative term (cf. Box 3).

The focus is on making further improvements to the investment climate in Germany. In this context, the Federal Government shares the view of the German Council of Economic Experts, which particularly stresses the significance for private-sector investment of a positive policy

environment for the factor and goods markets (cf. GCEE Item 646). At the same time, it points out that investment in a modern and efficient infrastructure is a key way to pave the way for private-sector investment and a vital precondition for the German economy's competitiveness and future viability.

### **Investing more in modern and efficient transport infrastructure**

105. In a globally connected world, growth, jobs and prosperity are more dependent than ever on the quality of the infrastructure. For this reason, the Federal Government increased investment in transport infrastructure in 2015 and will continue this process. In the federal budget, €12.3 billion is earmarked for investment in transport for the current year; this is to rise to around €13.4 billion by 2018. The focus basically remains on maintaining the existing transport infrastructure. Upgrades and new construction projects are being concentrated on supra-regional projects and high-performance main axes which are particularly economic and of great significance for transport. The new 2015 Federal Transport Infrastructure Plan also addresses these priorities in its presentation of all intended road, rail and waterway projects and the need for maintenance. The Federal Government has set up a Major Projects Action Plan in order to ensure efficient use of funds and to reduce cost and deadline overruns.

106. In addition to public funding, an increasing role in the strengthening of the transport infrastructure is being played by private-sector investment and contributions by the users. For example, in 2015 the user-based funding from the truck toll was extended to other four-lane federal roads upgraded to near-autobahn standard, and the threshold for vehicles liable to the toll was reduced to 7.5 tonnes maximum permissible weight. The intention is to extend the truck toll to all federal roads in 2018.

Since June 2015, the Act on the Levying of a Time-Based Infrastructure Charge for the Use of Federal Trunk Roads has been in force. The revenues from it are to be hypothecated for the maintenance and expansion of the transport infrastructure. Following confirmation that it conforms with EU law, the technical details of the infrastructure levy will be implemented.

107. For the financing of the construction and maintenance of federal trunk roads, the Federal Government will make greater use of private-sector capital via public-private

partnerships (PPP) where this means that projects can be realised more efficiently. In April 2015, a new generation of PPP projects were launched, with investment totalling approximately €15 billion.

108. The establishment of the necessary infrastructure is of crucial importance for the increased market penetration of electric vehicles. At the beginning of 2016, the Ordinance on Technical Minimum Requirements for the Establishment and Operation of Publicly Accessible Charging Stations for Electric Vehicles entered into force. On this basis, a needs-oriented recharging infrastructure can now be built up. With the Federal Government as moderator, industry is currently agreeing on a common, cross-provider procedure for recharging and billing the electricity delivered to electric vehicles.

109. In the fields of railways and shipping, the Federal Government is improving the policy environment for competitive infrastructure. The Act to Strengthen Competition in the Railway Sector creates incentives to boost efficiency and strengthens the powers of the Federal Network Agency as a regulatory authority. At the same time, the Act puts the conditions in place for a single European railway market. Here, the Federal Government supports the concept of an integrated Deutsche Bahn AG group (DB AG). The German Council of Economic Experts and the Monopoly Commission criticise the fact that the integrated structure of DB AG creates the risk of conflicts of interest and thus poses a risk to competition (cf. GCEE Items 624 f.). However, the Federal Government does not believe that the integrated structure of DB AG, which has operated on a private-sector basis since 1994, impedes competition. It ensures that the necessary investment in maintaining and expanding the network takes place and has proved its worth as a successful model in Europe. This is confirmed by the fact that the

market shares of competitors using the German railway network are growing.

The National Strategy for Sea and Inland Ports adopted by the Federal Government aims to strengthen the function of German ports as hubs for the national and international trade in goods. It is also intended to shift freight transport to railways and waterways. In this way, it is helping to attain the Federal Government's climate and environmental targets.

### Strengthening digital infrastructure and networking

110. The infrastructure of efficient broadband networks is just as important as good roads and railways for a modern, digitally connected economy and society. Successful participation in the opportunities of digitisation requires nationwide, high-performance network infrastructure. The Federal Government's aim is to vigorously continue the roll-out.

In the liberalised telecommunications market, the broadband roll-out is primarily the task of the telecommunications firms. Some of these companies agreed in the context of the Digital Germany Network Alliance to invest a total of €8 billion in rapid, modern and sustainable broadband roll-out using all the suitable technologies (optical fibre, cable, DSL, mobile communications, satellite, wifi) in 2015. The Federal Government is supporting the expansion of broadband by adapting the legal framework accordingly. For example, it has launched draft legislation to facilitate the efficient expansion of digital high-speed networks.

111. The Federal Government's Digital Agenda (cf. Box 1) aims to have a nation-wide broadband infrastructure in place in Germany with a download speed of at least 50mbps by 2018. In view of the pace of technological progress and

### Box 3: Elements of a Federal Government investment strategy

The Federal Government is particularly intending to take the following measures to achieve a lasting boost to investment activity in Germany:

#### Improving the possibilities to promote investment in municipal infrastructure

In order to further strengthen the competitiveness of the structurally weak regions, the Federal Government will work with the Länder to consider how the funding of infrastructure can be improved in the context of the Joint Task for the "Improvement of the Regional Economic Structure". Here, consideration will need to be given to the nation-wide funding system for structurally weak areas post-2020, which will be based on the Joint Task (cf. Items (138) f.).

### Establishing a comprehensive set of advisory and support services for investment projects undertaken by the municipalities

In order to ensure a high quality of municipal infrastructure, the funding available for investment projects must be used as effectively and economically as possible. The large number and varying nature of municipal construction projects necessitates administrative skills and capacities which are not adequately available in-house to all municipalities. It therefore makes sense to bring together the requisite capacities and skills on an overarching basis and to make them available to municipal administrations as needed. Within the framework of the possibilities permitted to it by the constitution, the Federal Government intends to contribute towards the needs-oriented expansion of the advisory service for municipalities. It wants to set up a centre of excellence which is basically available as an assistant and adviser to all municipalities across the country throughout all project phases, irrespective of the selected procurement method. Unlike existing services, this will cover not only public-private partnerships, but also and in particular supportive advisory services for the high proportion of conventionally realised investment projects. The intention is to provide a useful complement to the existing administrative capacities, not a substitute. The Federal Government is looking into a corresponding evolution of the public-private partnership advisory company, ÖPP Deutschland AG.

### Examination of fund models for private-sector infrastructure financing

The public sector believes that the private-sector financing of infrastructure projects can offer advantages if it proves possible to manage the project risks better and to steer investment projects more efficiently, particularly by pooling projects and by standardising project structures and contracts. The Federal Government is currently examining whether and, if appropriate, which legal and institutional conditions (e.g. the Investment Code) need to be adapted in order to mobilise additional private-sector infrastructure financing.

### Improving the general environment for private-sector investment

90% of all investment in Germany is private investment. This is why, during this parliament, the Federal Government has already undertaken a large number of measures designed to create an attractive investment environment. In order to further improve the investment climate, it will press vigorously and reliably ahead with the energy transition (cf. Chapter F) and combine it with an intelligent labour market policy (cf. Items (155) ff.) and innovation policy (cf. Items (117) ff.). It will also press ahead with the expansion of digital infrastructure (cf. Items (110) ff.). The more vigorously the business sector embraces digitisation, the greater the potential value creation will be. For this reason, the Federal Government will provide targeted incentives for small and medium-sized enterprises to invest in the digital transformation by launching an "SME Digitisation Campaign".

### Better rules for young companies and venture capital

Young companies make an important contribution to German industry's competitiveness and capacity for innovation. The Federal Government continued to develop Germany as an internationally competitive base for venture capital funding in 2015 (cf. Item (101)) and – as announced in the document containing key points on venture capital – it will continue this strategy.

The Federal Government will take decisions on the details of its investment strategy in spring 2016.

the rise in demand, this can only represent an interim stage. For the future, the availability of optical fibre must continue to increase substantially in order to enable internet access with constantly high bandwidth in the range of a gigabit per second.

112. In addition to line-based broadband technologies, high-performance mobile communications networks and mobile telecommunications services are playing an increasingly important role – particularly when it comes to developing broadband in rural regions cheaply. Thanks to the move of terrestrial television from the DVB-T to the DVB-T2 standard, frequencies have been released for mobile data communication as the “Digital Dividend II”. These and other frequency bands were auctioned to mobile communications providers in mid-2015. In this way, the Federal Government has further improved the preconditions for innovation in the field of mobile broadband. In total, the auction yielded revenues of approximately €5 billion. Around €1.3 billion from the “Digital Dividend II” is available to the Federation and the Länder (half each) for the broadband roll-out.

The 2015 World Radiocommunication Conference also took important decisions for the future development of the next mobile communications standard, 5G. The international community has agreed to press ahead with the global harmonisation of frequency bands for the use of the 5G standard by 2019.

113. Via the Guidelines for Broadband Funding, the Federal Government is providing a total of €2.7 billion to fund the expansion of broadband. In addition to the above-mentioned funding from the frequency auction, this includes further budget funding of €1.4 billion. The expansion funded in this context will basically be technology-neutral. Furthermore, the Joint Task for the “Improvement of the Regional Economic Structure” is providing funding for the broadband roll-out with a focus on companies in trade and industry. The Joint Task “For the Improvement of the Agricultural Structure and Coastal Protection” is also providing at least €10 million a year to improve broadband coverage in rural areas.

114. The German Council of Economic Experts points out that the costs and benefits of public grants towards broadband expansion in rural areas in particular need to be weighed up carefully (cf. GCEE Item 667). In view of the significantly higher costs of optical fibre cable connections, compared with other technologies, it rejects higher public-sector grants for the nation-wide expansion of optical

fibre cable (cf. GCEE Item 666). The Federal Government is responding to the concerns of the German Council of Economic Experts to the extent that it is promoting the expansion of broadband on a technology-neutral basis and is only providing funding in regions in which market-based expansion by private-sector investment alone is uneconomic. It points out that successful participation in the opportunities of digitisation requires nation-wide, high-performance network infrastructure. This puts the conditions in place for smart networking of applications, e.g. in the fields of energy, transport, health and education, and in public administration.

115. Efficiency gains can be realised in these fields in particular where existing infrastructure and information is systematically digitised and the stakeholders are networked on a cross-sectoral basis. In order to ensure that better use can be made of these advantages, the Federal Government adopted the Smart Networking Strategy in September 2015. It is thus delivering specific action in support of systematic digitisation in the aforementioned sectors.

The IT consolidation being undertaken by the Federation also aims to attain efficiency gains in the administration. In future, the work will be concentrated in a few IT service centres, making the administration more economic, more efficient, and more secure.

116. The ability of users to control their own data is to be strengthened by the selection of routers: by amending the Telecommunications Act and the Act on Radio Equipment and Telecommunications Terminal Equipment, the Federal Government is ensuring that equipment can be chosen freely. In doing this, it is helping to enable open, competition-based trade in telecommunications terminal equipment in the European internal market and technology-neutral and non-discriminatory access to broadband systems. The avoidance of an equipment monoculture also improves security. The statutory changes are to enter into force in January 2016, so that the requirement imposed by some network operators that customers must purchase a specific model has to be abolished from July 2016.

### **Developing potential for innovation, investing in (digital) innovation**

117. Like the German Council of Economic Experts (cf. GCEE Item 649), the Federal Government regards the interaction between research and development work and information and communication technologies as an

important factor for innovative capabilities. In order to develop the potential for innovation offered by digitisation, the Federal Government has set up a number of technology promotion programmes and has initiated dialogue processes with the relevant stakeholders.

118. The new High-tech Strategy brings together Federal Government activities to promote research and innovation. It is setting priorities in five selected fields where innovative activity is highly dynamic: the “digital economy and society”, “sustainable management and energy”, “innovation within the world of work”, “healthy living”, “mobility and civil security”. The Strategy aims at further strengthening Germany’s position in the global rivalry between the knowledge-based societies. At the beginning of 2015, a high-tech forum set up to support the Strategy commenced work. It works on key forward-looking topics like autonomous systems, transfer and networking, and the innovative capabilities of SMEs, and draws up specific contributions for implementation.

119. Digitisation and networking of industrial production processes along the entire value chain is heralding customised production and products, along with efficiency gains, and is paving the way for new business models. Both the Federal Government and the German Council of Economic Experts believe that the development towards “*Industrie 4.0*” can result in significant improvements in labour productivity (cf. GCEE Annual Report, Item 663). In order to tap the potential offered by “*Industrie 4.0*”, the Federal Government set up the Industrie 4.0 Platform together with representatives of commerce, trade unions and science in April 2015. The Platform is tasked with drawing up recommendations for action in areas in which industry is facing particularly great challenges due to the advance of digitisation. These include standardisation, research and development, the security of networked systems, the legal framework, and questions relating to work and training in “*Industrie 4.0*”.

Small and medium-sized enterprises in particular will find that digitisation is a key to maintaining their competitiveness. Here, the Federal Government is helping them to master the challenges, for example in centres of excellence for SMEs, the retail trade dialogue platform, and the promotion of the use of social media in the tourism sector. Also, the funding programmes for innovative SMEs have been made more transparent and stronger; the technology-neutral innovation policy gives structured backing to the process from the idea through to success on the market. The measures taken by the Federal Government include further improvements in the funding terms of the Central

Innovation Programme for SMEs and the extension of the SME-innovativ fund programme to cover further fields of technology.

120. The mobility of the future is safe, clean and efficient, and offers enormous prospects for growth and prosperity. Automated and connected driving will significantly improve traffic flows, reduce the emergence of critical situations and optimise the handling of them. It will improve the situation for drivers and the environment, generate additional added value, and be an important growth trend for car-making in Germany. The Federal Government has adopted the Strategy for Automated and Connected Driving to make better use of this potential.

121. In the field of microelectronics, it is important to build on the strengths of German industry in the field of complex, high-quality and high-performance electronics. Great use is made of it in the field of automotive, mechanical and plant engineering, and in the implementation of the Federal Government’s energy and climate targets. In order to ensure that better use is made of the potential offered by microelectronics, for example in the field of energy-efficient and reliable electronics and security chips, the Federal Government is promoting selected projects in this field.

122. Interaction between people and technology is based on key enabling technologies like information and communication technologies. These form the basis for innovative solutions which are assisting more and more aspects of people’s lives. In order to do more to promote the development of interactive technologies, the Federal Government launched the “Bringing technology to people” research programme in December 2015.

## D. Sound fiscal policy creates scope for action

123. Last year, the overall public-sector budget again achieved a surplus. The federal budget made a substantial contribution towards this. Despite the additional public-sector spending due to the large number of refugees, the Federal Government is continuing its intergenerationally fair pro-growth policy. The aim continues to be the reduction of the overall public-sector debt-to-GDP ratio to below 60%.

124. The Federal Government is continuing to advocate an ongoing development of national tax legislation. In order to reduce fiscal drag, the main tax thresholds were raised by the cumulative inflation rate of 2014 and 2015. Another

priority is the fight against harmful practices of cross-border profit shifting and tax avoidance. Not least, the Federal Government is aiming to reach early agreement with the Länder on restructuring the fiscal relations between the Federal and Länder governments. In this context, there are also plans to reorient regional assistance.

### Stable budgets, falling debt burden, more investment

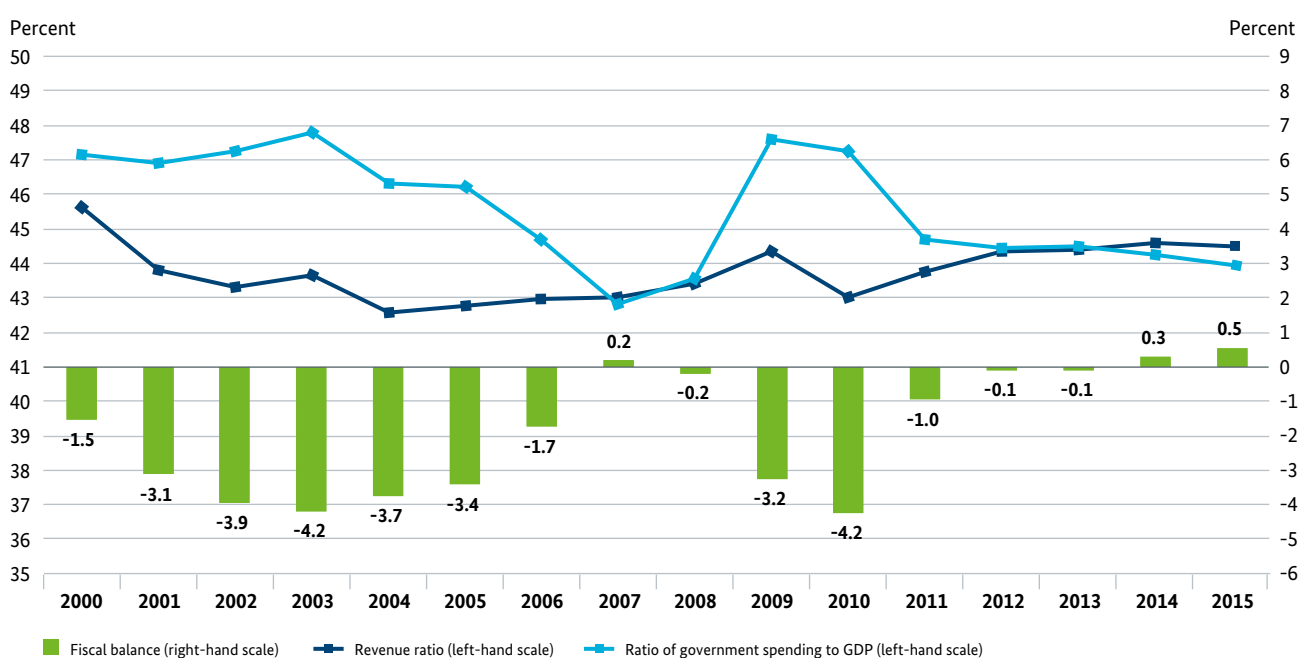
125. Last year, the overall public-sector finances were again in the black, at 0.5 % of GDP. This means that the public-sector budgets were close-to-balance for the fourth year in succession (cf. Diagram 3). The Federation made a substantial contribution towards this success. In order to meet future challenges, it has also set up the municipal investment promotion fund, boosted the funding of the Energy and Climate Fund, and formed a reserve to cope with tasks related to the reception and accommodation of refugees and asylum seekers in the coming years. Germany is in compliance with the national and European fiscal rules and is thus helping to rapidly reduce the debt-to-GDP ratio.

126. 2016 is expected to see an increased outflow of funding from these funds and from the reserve, so that the

overall financing balance for the state as a whole will deteriorate. For this reason, the fiscal policy orientation of the 2016 state budget should be regarded as expansionary, even if the finances will be close-to-balance. The ongoing reduction in the portfolios of the resolution agencies (founded in the course of the financial market crisis to maximise the revenues from the resolution of the relevant old portfolios), the generally sound situation of the budgets of the Federation, the Länder and the municipalities, and the robust expansion of GDP are resulting in a continuing fall in the debt-to-GDP ratio. The Federal Government's goal of cutting the debt-to-GDP ratio to less than 70 % of GDP will be attained by the end of 2016. This puts a platform in place from which to fulfil the plans to cut the debt-to-GDP ratio to below 60 % in a ten-year period (cf. Diagram 4).

127. At the same time, the Federal Government is placing a clear emphasis on public-sector investment. For example, the funding for efficient transport infrastructure has been clearly increased in the federal budget (cf. Items (105) ff.), and more money has been allocated to the Energy and Climate Fund (cf. Item (183)). However, since the bulk of public-sector investment is realised by the Länder and the municipalities, the Federation is also providing considerable financial relief to those levels of government in order

**Diagram 3: Expenditure, revenues and net borrowing (Maastricht) by the state (in terms of nominal GDP)**



2000: excl. UMTS revenues; including UMTS revenues, there was a budget surplus of 1.0 % of GDP.

Source: Federal Ministry of Finance, status: January 2016.

to enable them to finance their work in the fields of infrastructure, education and childcare services in particular.

### Relief from the Federation for Länder and municipalities

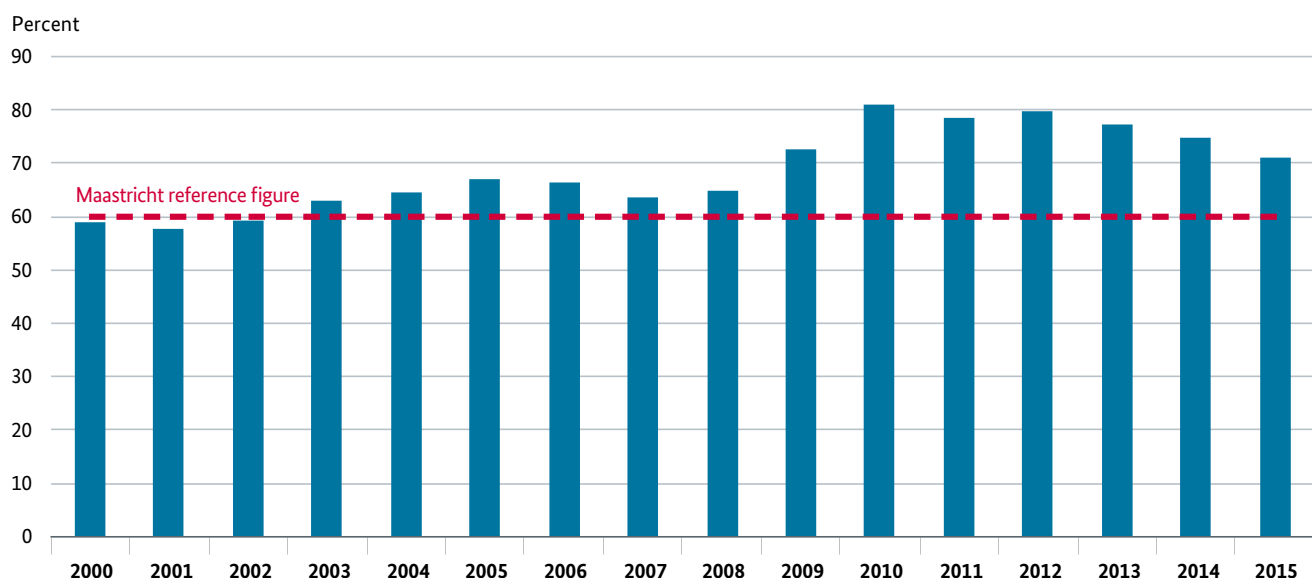
128. The overall fiscal situation of the Länder and the municipalities has developed positively in recent years. To a significant extent, this has been helped by the substantial relief provided by the Federal Government. In this way, the Federal Government is underlining its commitment to a lasting improvement in municipal finances, which are the responsibility of the Länder according to the constitutional rules governing public finance.

The Federation is helping the Länder and municipalities with their spending on basic social security benefits for senior citizens and people with reduced earning capacity, with the expansion of childcare services for the under-threes, and with the costs of accommodation and heating. Further to this, the Federation is providing a total of €6 billion to relieve the burden of spending on education and childcare by the Länder and municipalities during this legislative term. In particular, it is covering the entire cost of monetary benefits pursuant to the Federal Educational Assistance Act and is granting further payments for childcare and the expansion of kindergartens. An additional

€3 billion is earmarked for research. This is mainly allocated to the Initiative for Excellence and the Pact for Research and Innovation. The Federal Government is solely responsible for funding the extra three percent from 2016 to 2020 for non-university research establishments. Through the Higher Education Pact, the Federation is continuing to create 760,000 new places for students at higher education facilities. Not least, the Federation is providing additional funding of €600 million in the 2014-2017 period to promote urban development. Further to this, the Federation has decided to provide the municipalities with general relief of €1 billion a year from 2015 to 2017. The municipalities will be provided with a further €1.5 billion to strengthen their investment capacities. In order to promote investment by financially weak municipalities, the Federation is granting the Länder financial aid totalling €3.5 billion in the years from 2015 to 2018. From 2018, the municipalities will receive a further €5 billion in financial relief. These and further relief measures are described in Overview 2. According to this listing, the total relief granted in the 2013-2018 period exceeds €45 billion.

The Federation is also providing more than six billion euros of funding to the Länder in 2015 and 2016 solely to help them cope with the tasks related to the reception and accommodation of refugees and asylum seekers in the coming years. The Federation has formed a reserve to

**Diagram 4: Drop in the Maastricht debt-to-GDP ratio since 2012 (Maastricht debt in terms of nominal GDP)**



Source: Federal Ministry of Finance, status: January 2016; 2015: forecast by Federal Ministry of Finance.

finance these tasks. Furthermore, the Institute for Federal Real Estate has been authorised to allow the Länder and municipalities to use federal properties rent-free for the purpose of accommodating refugees and to reimburse them for appropriate fitting-out costs. Since 2015, the Institute has been authorised to sell sites which were previously used by the military to municipal purchasers at a reduced price. The Institute has been authorised to provide further plots of land at a reduced price for the purposes of social housing. For the following years, the medium-term budgetary planning also envisages substantial structural and dynamic relief (cf. Overview 2). In this way, the Federal Government is helping to ensure that the originally planned municipal investment projects can still be realised despite the additional cost because of the refugee influx.

### Developing tax law, modernising taxation procedures

129. In July 2015, the Federal Government set in motion tax relief for individuals totalling more than €5 billion per year. In line with the findings of the 10th report on subsistence levels, increases in the basic personal allowance and the child tax credit were adopted for 2015 and 2016. Also, in order to reduce fiscal drag in the tax schedules, the tax schedules were adjusted for the inflation of 2014 and 2015 with effect from 1 January 2016. This is supplemented by targeted improvements for families by increases in child benefit, the relief for lone parents and the child supplement for low-earners. The effects of fiscal drag are explained every two years to the Bundestag in the form of a report analysing the effects of fiscal drag; this was presented last year for the first time.

130. If German tax law is to be able to continue to meet the needs of a modern society in a globalised world, it must be continuously developed. Modern and competitive tax law makes an important contribution towards maintaining Germany's economic strength.

131. In view of the ruling by the Federal Constitutional Court on inheritance and gift tax of December 2014, the Federal Government has adopted a draft law to amend the tax. In order to prevent jobs in an economy dominated by small and medium-sized enterprises from being endangered in the case of inheritance or a gift, the aim continues to be to alleviate in a constitutionally compliant manner the effects of inheritance and gift tax on the acquisition of corporate assets subject to preferential tax treatment. Contrary to the criticism by the German Council of Economic Experts (cf. GCEE Items 808 ff.), the amount of bureaucracy

has been restricted to what is necessary. The Federal Constitutional Court has set a deadline of 30 June 2016 for the new rules.

132. The Federation and the Länder will continue their efforts to reform land tax in the near future whilst retaining the right for municipalities to set the municipal multiplier. The land tax reform aims to retain the tax as a reliable and constant source of municipal income.

133. The Federal Government is aiming to undertake a comprehensive reform of investment tax law. The current risks due to European law are to be removed, tax-saving models are to be abolished in future, the vulnerability of investment tax law to avoidance structures is to be reduced in general, and the administrative burden is to be lowered.

134. Digitisation opens up new possibilities to make the taxation procedure more efficient. Working together with the Länder, the Federal Government aims to keep modernising the tax collection processes. This includes the expansion and further development of IT support, a more service-oriented fiscal administration, and structural procedural changes. The legal conditions for this are put in place by the Act Modernising the Taxation System, which is to enter into force on 1 January 2017. The envisaged technical and organisational measures are to be gradually implemented by 2022.

### Effectively tackling profit shifting and tax avoidance

135. The fight against the shifting of profits across borders by companies which operate internationally is a central objective of taxation policy in the current legislative term. In mid-2012, the OECD started drawing up recommendations on behalf of the G20 on base erosion and profit shifting (BEPS). These recommendations were adopted at the G20 summit in November 2015. In order to reduce undesired scope to influence tax returns and to prevent companies from avoiding payment of a large proportion or even all of their taxes, the existing principles of international tax law were revised. Also, international standards for corporate taxation were developed for the first time, e.g. to neutralise effects of hybrid structures which take advantage of differing national rules, and to limit the reduction of profits via the tax deductibility of interest payments (interest deduction ceiling). In order to become effective, the new standards need to be translated into national law. The Federal Government will commence work on this in the first half of 2016.

It is necessary to continue the work at international level in order to ensure consistent implementation of the recommendations and to address remaining BEPS-related issues.

Here, it is important for the close coordination between the OECD, the G20 and developing countries to continue.

## Overview 2: Selected Federation measures to relieve the Länder and municipalities since 2013

Year of entry into force	Measures	Explanations*
2013	Reconstruction aid fund for flood damage	Federal Government contribution of approx. <b>€3 billion</b> to the flooding aid fund
2013/2015	Expansion of daycare for children under three	<ul style="list-style-type: none"> <li>- Investment costs: <b>€580.5 million</b> from 2013 and <b>€550 million</b> total in 2016 – 2018</li> <li>- Help with operating costs: extra <b>€18.75m</b> in 2013, <b>€37.5m</b> in 2014 and <b>€75m p.a.</b> from 2015 (i.e. total for operating costs: €845m p.a.) plus <b>€100m p.a.</b> in 2017 and 2018 (i.e. then €945m p.a.).</li> </ul>
2014	Revision of the Act Unbundling Joint Tasks and Financial Aid	<b>€2.6bn p.a.</b> in 2014 – 2019; Continuation of the compensatory payments at the existing level pursuant to Article 143c of the Basic Law
	Support with challenges due to immigration from EU Member States	€200m e.g. for urban development, advice, care, integration
2015	Full assumption of benefits under the Federal Educational Assistance Act	<b>€1.2bn p.a.</b> unlimited in time
	Reform of the Asylum Seeker Benefits Act	<b>€31m</b> in 2015 and <b>€43m p.a.</b> from 2016
	Act for Further Relief for Länder and Municipalities as of 2015	<b>€1bn p.a.</b> in 2015 – 2017 (half for each via costs of accommodation and municipal share of VAT)
	Act to Promote Investment by Municipalities with Inadequate Financial Resources and to Help Länder and Municipalities Finance the Reception and Accommodation of Asylum Seekers	<ul style="list-style-type: none"> <li>- Financial assistance via Municipal Investment Promotion Fund: <b>€3.5bn</b> total in 2015 – 2018</li> <li>- <b>€1bn</b> via increased municipal share of VAT and <b>€500m</b> via increased federal share of accommodation costs in 2017</li> </ul>
2015/2016	Help with reception and accommodation of asylum seekers: lump sum assistance for 2015. From 2016 structural, permanent and dynamic participation of Federation in public-sector costs depending on the number of incoming asylum seekers and refugees.	<ul style="list-style-type: none"> <li>- <b>€2bn</b> in 2015 via increase in VAT share of Länder</li> <li>- <b>€3bn</b> advance payment for 2016 (at end 2016 also an exact tally, taken into account for the 2017 advance payment. The payments for 2017 ff. depend largely on the duration of asylum procedures and the number of asylum seekers.</li> <li>- <b>€0.35bn p.a.</b> from 2016 for unaccompanied minor refugees</li> <li>- <b>€2bn</b> in total in 2016 – 2018 for improvement in childcare</li> </ul>
2016	Increase in the unbundling funds to promote housing in the context of the Act to Expedite Asylum Procedures	<b>€500m p.a.</b> in 2016 – 2019
	Increase in regionalisation funding	Increase by <b>€600m</b> in 2016 to €8bn; from 2017 – 2031 rising by 1.8 % p.a.
	Revision of the Housing Benefits Act adapting housing benefit to the development in the cost of housing including ancillary costs since the last adjustment	Approx. <b>€80m p.a.</b> for further relief for municipalities in the basic security benefits for jobseekers and cost of living assistance
2018	Relief for municipalities in the context of the envisaged adoption of the Federal Participation Law	<b>€5bn p.a.</b> from 2018

\* The financial impact of specific measures was assessed at the time of the entry into force of the respective measures. It is not possible to provide information about the actual financial relief provided.

136. The Federal Government has also always supported the work being done at EU level to improve the exchange of information between the Member States on tax rulings with cross-border effect. The new EU-wide transparency rules are to be applied from 2017. Following the revision of the EU directive on administrative cooperation, the national taxation authorities will then be required to share relevant information about this automatically. The transparency between the national taxation authorities reduces the incentive to grant companies selective tax advantages. The aim is to make it easier to pinpoint abusive taxation arrangements and to take action against them.

### **Restructuring of the financial relationships between Federal Government and the federal states**

137. At the end of 2019, the rules on fiscal equalisation in Germany – the Standards Act and the Financial Equalisation Act – will cease to apply. This also means that the rules on the distribution of the funding from Solidarity Pact II will expire. It is therefore necessary to restructure federal-Länder fiscal relations in general. The Federal Government would like to arrive at a result together with the Länder during this legislative term which meets the interests of the Federation and the Länder. In restructuring federal fiscal relations, the aim is to modernise both the vertical fiscal relations between the Federation and the Länder, and the horizontal fiscal relations among the Länder themselves.

### **Developing regional policy**

138. Progress has been made both on rebuilding the eastern part of Germany and in terms of structural change in the old industrialised and rural regions of western Germany. Nevertheless, there are still considerable regional disparities in Germany (cf. the Annual Report of the Federal Government on the Status of German Unity in 2015). Demographic change and the very different welfare gains achieved by different regions in the course of globalisation could further exacerbate the disparities in the coming years.

So far, the Joint Task for the “Improvement of the Regional Economic Structure” has been supplemented by further instruments to boost the regional developmental capacity of structurally weak regions. The end of the investment allowance at the beginning of 2014 and the smaller amount of funding from the European structural and investment

funds for Germany in the 2014-2020 period will reduce the scope for regional policy-making.

139. The Federal Government is a clear advocate of the goal of equal standards of living. The expiry of Solidarity Pact II marks the starting point for the development of a nation-wide system to promote structurally weak regions. The Federal Government adopted principles for such a funding system at the beginning of May 2015. According to these, regional economic assistance will in future be supplemented by, for example, programmes to promote innovation. A second focus is to be placed on funding for regional infrastructure and for services of general interest. With these key principles for a comprehensive and integrated nation-wide funding system, the Federal Government is clarifying its commitment to regional policy for the period beyond 2020.

The future funding system aims to provide support from the Federation for structurally weak regions in Germany as part of an integrated approach. This approach is to be characterised by a multi-year funding provision, a report on the status of structurally weak regions, and an evaluation of the impact made by the funding system.

### **E. Strengthening social cohesion, integrating refugees as well as possible**

140. Last year, more people were in gainful employment than ever before in the history of the Federal Republic. The high level of employment is making a major contribution towards material prosperity in Germany and is also a foundation for a high level of social equity. Nevertheless, demographic change and the current high refugee influx are confronting the Federal Government with major challenges. It is therefore necessary to support the positive development in employment figures via a further reduction in barriers to employment and a rapid integration of refugees. The advances in digitisation are also entailing far-reaching changes. The Federal Government is addressing this change to a digitised world (Work 4.0). It remains important to retain the necessary flexibility for companies and to prevent misuse of external staff. For this reason, the Federal Government decided in the Coalition Agreement to further develop the rules on contracts for work and services and temporary agency workers. In the health sector, the focus is on modern and sustainable healthcare in all fields of health and nursing care, with a view to coping with current challenges. A key role is also played by the digitisation of the healthcare sector.

### Employment at a record level

141. Last year, an average of 43 million people were in gainful employment, more than ever before. The trend towards higher employment is continuing. The number of gainfully active persons is 3.7 million higher than in 2005. The employment rate for 20-64-year-olds also reached a new record high in 2014, at 77.7% compared with 69.4% in 2005. Overall, Germany has now joined Sweden as a country with the highest proportion of people in work in the EU.

142. The positive development can particularly be seen amongst older workers. The employment rate of the 55-64 age group rose from 45.5% in 2005 to 65.6% in 2014. This places the proportion approximately 14 percentage points above the European average. The development in female employment is also positive. At 73.1%, the female employment rate in 2014 was 10 percentage points higher than in 2005, and nearly 10 percentage points higher than the current EU average (cf. Diagram 5).

### Increasing labour force participation, mobilising skilled workers

143. The current employment situation must not be allowed to hide the fact that the ageing of the population will very probably result in a drop in the total labour force in the coming decades and a rise in the proportion of senior citizens. The Federal Government's economic policy therefore aims to continue to boost labour force participation. Not least, this is crucial if there is to be broad social participation in working life. Increased immigration of skilled workers and the integration of refugees into the labour market can alleviate but not reverse the consequences of demographic change. Against this background, the Federal Government also continued to develop its demography strategy last year.

A high labour participation rate of older workers is both in the interest of the companies, which are reliant on experienced skilled workers, and in the interest of the older workers themselves, who would like to pass on their expertise and experience. In November 2015, a working group of the parliamentary groups in the governing coalition presented options for a more flexible transition from working life to retirement. The aim of the proposals is to make it more attractive to work longer and to enable people to shape their move into retirement flexibly, on their own terms, and more in tune with their personal circumstances. This includes new, more flexible rules on supplementary

earnings and partial pensions. The Federal Government supports this initiative.

In order to secure the skills base in Germany against this backdrop, the Federal Government, business sector and trade unions are working in the Partnership for Skilled Professionals in Germany to foster working conditions which impact positively on the continued employability of older workers. If people are to retire later, they need to be in good physical and mental shape. The Prevention Act is intended to boost preventative measures and health promotion in companies and to improve the interaction of occupational health promotion and occupational safety and health.

144. The positive development in female employment has been helped by the introduction of the parental allowance and the expansion of childcare services. By introducing the parental allowance 'plus' on 1 July 2015, the Federal Government has strengthened the positive trend by supporting an early return by both parents to working life following the birth of a child. Also, the expansion of the parental allowance is making it easier to combine self-employment and family life.

145. The Act to Raise the Basic Personal Allowance, the Child Allowance, Child Benefit and the Child Supplement also increased the tax relief for lone parents as of 1 January 2015 by €600 to €1,908 per year, plus an extra €240 for each additional child. This improvement provides targeted support to lone parents and promotes their participation in working life (cf. Item (129)).

146. High-quality childcare not only makes a key contribution to helping parents combine work and family commitments. At the same time, the educational opportunities of children and their possibilities to participate can be increased. From 2015 onwards, therefore, the Federal Government will support the Länder and municipalities with €845 million annually to cover ongoing child daycare expenses, and will provide an additional €100 million each year in 2017 and 2018. The Federal Government is also making use of the financial scope in the federal budget arising from the end of the childcare allowance up to 2018 in order to provide additional support to the Länder and municipalities with measures to improve childcare services.

Ultimately, however, the compatibility of family life and work does not depend only on the policy environment provided by the state. The companies themselves also bear responsibility for more family-friendly working condi-

tions. The Federal Government is supporting their efforts in cooperation with the umbrella associations of German industry and the trade unions, e.g. via the memorandum entitled “Family and working life – the NEW compatibility”.

147. In order to counteract a medium-term drop in the number of skilled workers, the Federal Government is aiming both to mobilise the domestic skills pool and to attract qualified professionals from abroad. The rules on the immigration of people with vocational qualifications are therefore being relaxed further. The orientation of the “positive list” of occupations where there is a skills shortage to regional labour market needs means that qualified professionals from abroad can now work in more than 130 occupations. Here, their employment conditions must be equivalent to those of German employees. From this year on, immigrants from the western Balkan states have further options to take up employment in Germany.

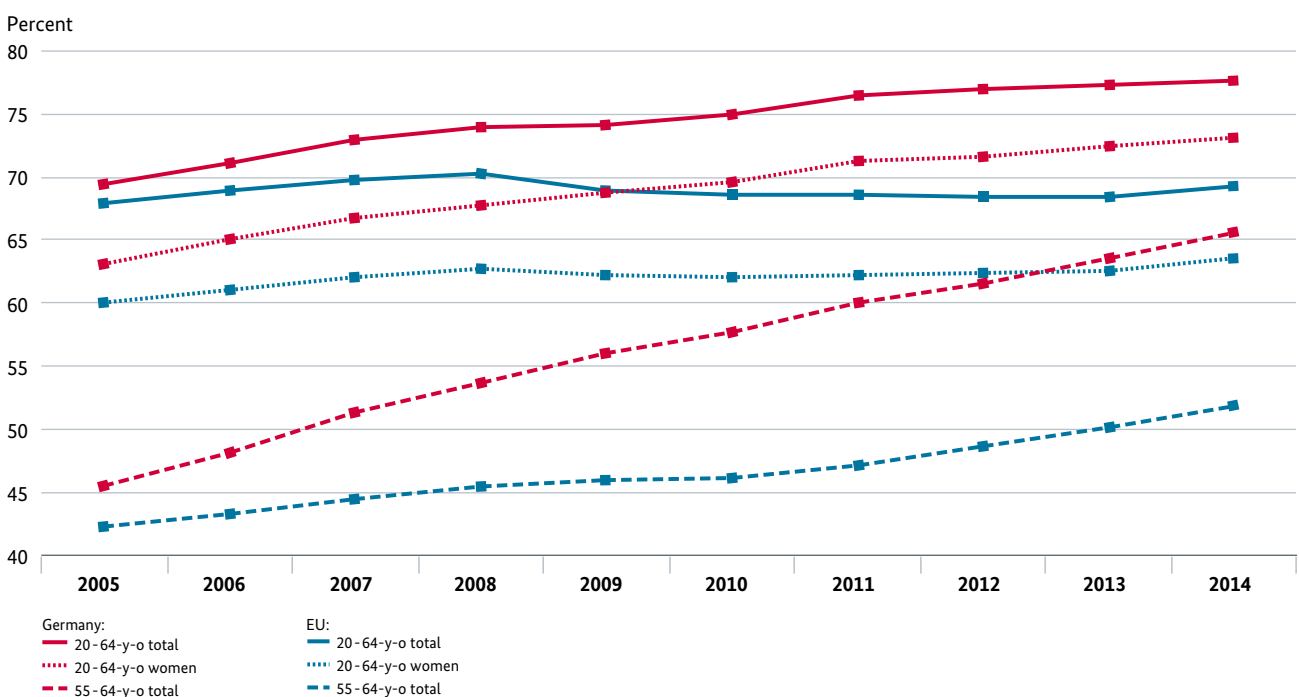
148. Since August 2015, there has also been a new residence permit for people who would like to have their qualification recognised in Germany and need to attend an in-company or in-school training measure to achieve this. This enables them to participate in training courses which are suited to offsetting specialist, practical and/or language

deficiencies which stand in the way of the recognition of the foreign qualification or of access to the occupation.

149. A further opportunity to find more skilled workers lies in better participation of people with disabilities. For example, the proportion of skilled workers amongst severely disabled unemployed people is higher than that amongst not severely disabled unemployed people. In order to make it easier to draw on the skills potential of severely disabled people, corresponding initiatives were launched in the context of the Federal Government's national action plan to implement the UN Convention on the Rights of Persons with Disabilities.

150. If there are to be more skilled workers in the medium to long term, the attractiveness and quality of vocational training is also of key importance. In the context of the “Alliance for Initial and Further Training 2015-2018”, the Federal Government is working with the business community, the trade unions, the Länder and the Federal Employment Agency to point every young person interested in vocational training towards a “path” which offers a vocational qualification as quickly as possible. In order to help lower-achieving young people to receive in-company training, the Federation introduced Assisted Training as a

**Diagram 5: Development in the employment rates in Germany and the EU**



temporary new support instrument in 2015 and expanded the target group entitled to make use of training-related assistance. In the context of the “Educational Chains” initiative, the Federation is joining forces with the ESF programme to help fund the career entry support programme for young people who are likely to have problems with their school-leaving certificate and thus risk missing out on a successful start to working life. Not least, the Federal Government will further increase permeability between academic education and vocational training, e.g. via far-reaching improvements to the Upgrading Training Assistance Act.

### Employment as a central key to integration and participation

151. The rate of immigration has reached a new record due to last year's dramatic rise in refugee influx. In view of this, the Federal Government is working intensively to ensure orderly and controlled immigration of refugees. Irrespective of the future development of refugee numbers, it is already clear for those refugees in Germany who have the prospect of permanent residency that rapid involvement in working life is key for both economic and social integration (cf. GCEE Item 35). It is vital for the quality of life of the refugees and also makes a major contribution towards social peace. Also, successful labour market integration can help to counteract the manpower shortage which is anticipated in the medium term due to demographic factors.

152. Those asylum seekers who have the prospect of permanent residence should be integrated into the labour market more quickly than was the case in the wake of previous waves of immigration. The Federal Government has taken action in three fields to achieve this (cf. also Box 2):

- Legal preconditions: The long duration of asylum procedures and the related uncertainty about whether a person will remain in Germany not only generate considerable costs, in that the potential taking up of employment is delayed, but also demotivate those affected. For this reason, the Federal Government has launched a package of measures to speed up the procedures and to grant refugees with a good prospect of permanent residency more rapid access to the labour market. At the same time, several legal barriers preventing the provision of vocational training to refugees have been removed.
- Language acquisition: Mastery of the German language is a basic prerequisite for people to gain a foothold on

the German labour market. For this reason, the Federal Government is opening up and providing more funding for the integration courses of the Federal Office for Migration and Refugees to asylum seekers with good prospects of remaining in Germany and for certain persons with temporary suspension of deportation. Also, the integration courses should be integrated better with the job-related language support services, which are being financed from the federal budget and expanded from mid-2016, and which supplement the ESF-Federal Office for Migration and Refugees programme which will expire at the end of 2017. Refugees with no school-leaving or vocational qualification should be enabled to obtain such qualifications as quickly as possible. Chambers, educational organisations of the business community and the trade unions, and companies are supporting these efforts, particularly via the provision of company visits and practical days.

- Training and active labour market policy: Since more than half of the asylum seekers are aged under 25, their skills and training are of crucial importance. The Federal Government is supporting the Länder and the Federal Employment Agency in the field of careers advice and help with finding a training place. In addition to the language-acquisition and training measures, the Federal Government is providing numerous programmes in the context of active labour market policy in cooperation with the Federal Employment Agency.

153. Alongside the additional efforts relating to the high influx of refugees, the work to tackle long-term unemployment also remains very important. The Federal Government's “Creating Opportunities – Social Participation” concept is making a comprehensive contribution towards reducing long-term unemployment. Key elements include a new, improved approach to providing support via the networks to activate, advise and offer opportunities, an ESF federal programme to integrate long-term unemployed people in Social Code II into the regular labour market, and a federal programme to encourage social participation on the labour market.

### Actively promoting (digital) transformation on the labour market

154. Digitisation is radically changing the world of work. New possibilities to work flexibly in terms of time and space are arising, new forms of earnings are emerging, and the demand for skills and activities is changing (cf. GCEE

Items 545 ff.). The Federal Government is working actively on this process.

The “Work 4.0” dialogue process from spring 2015 until the end of 2016 is creating the framework for a public and expert dialogue on the future of the world of work. The aim is to work with practitioners from companies, with social partners and with individuals and academics to identify opportunities to shape the process and to develop specific options for action. Not least, the technical innovations resulting from the digital transformation are also changing the economic and social relations in the world of work. The dialogue process is being supported by research projects on “crowdworkers”, the impact of digitisation on employment, the use of digital work equipment and the demands imposed on work. The results of the dialogue process are to be presented in a White Paper at the end of 2016. The “Digital World of Work” platform of the IT Summit is focusing this year on questions of employment and further training. It will also look at issues relating to flexible work in terms of time and space, and standards of welfare protection in the world of digital work. In addition to the “Work 4.0” dialogue process, the Federal Government is also pursuing other projects in the fields of “future of work” and “quality of work”. Not least, the Federal Government is considering how to adapt vocational training to the challenges of a digital world of work.

### Shaping a fair and flexible labour market

155. Since 1 January 2015, there has been a nation-wide statutory gross minimum wage of €8.50 per hour worked in Germany. Since then, there have been clear wage increases for those on the lowest incomes, particularly in the eastern part of Germany. In numerous cases, the minimum wage must also have helped minijobs to be changed into jobs subject to social insurance payments. The Federal Government welcomes both developments. In future, the level of the minimum wage can be altered at the proposal by the Minimum Wage Commission by a Federal Government ordinance. The first possible adjustment will be considered by the Minimum Wage Commission on 30 June 2016, to take effect on 1 January 2017. As it sets the minimum wage, the commission orients itself to collective agreements in Germany. As part of an overall approach, it examines what minimum wage offers appropriate minimum protection for employees, permits fair competitive conditions, and does not pose a risk to employment. The negative macroeconomic employment effects of a minimum wage of €8.50 which were feared by parts of society

and by the German Council of Economic Experts have not been observed so far (cf. GCEE 2013/14 Items 480 ff., GCEE 2014/15 Items 540 ff.; GCEE Item 534).

156. The Act on Uniform Collective Bargaining, which entered into force in July 2015, resolves conflicts between collective agreements. If the parties to collective bargaining are unable to resolve demarcation conflicts between trade unions, since July 2015 the collective agreement which is negotiated by the trade union with the most members in the facility will be used.

157. Contracts for work and services and the supply of temporary workers are important instruments in an economy based on the division of labour, and enable companies to respond quickly to changing needs. The Federal Government therefore believes that both contracts for work and services and temporary agency workers are indispensable. However, effective action must be taken against illegal clauses in contracts for work and services. To this end, in particular the key criteria distinguishing between the orderly and abusive deployment of external staff, as derived from case-law, are to be codified in law, and the right of the works council to be kept informed by the management about the use of external staff is to be clarified in law. Also, the practice of supplying temporary agency workers is being oriented more to its core function. The main point is that in future a maximum period of secondment of 18 months is to be prescribed in law for temporary agency workers, and that these workers are to enjoy equal treatment with the regular staff in terms of pay after nine months at the latest.

158. The flexibility of the German labour market has been a factor driving the success of the increase in employment since 2005. However, flexibility is not just a matter for employers. The Federal Government will therefore continue to develop legislation on part-time work as an important element of a modern approach to the organisation of work. To this end, individuals working part-time should be able to resume their previous hours of work. Here, an entitlement to part-time employment for a certain period is to be established.

159. In order to promote equal opportunities in work, the Act on the Equal Participation of Women and Men in Executive Positions in the Private and Public Service entered into force on 1 May 2015. It is intended to help to significantly boost the proportion of women in managerial positions and to initiate a cultural shift in companies. The Act prescribes that newly elected members of the supervi-

sory boards of companies listed on the stock exchange and companies subject to codetermination on an equal basis should fulfil a gender ratio of 30%. All listed or codetermined companies are required by the Act to stipulate targets for the proportion of women on the supervisory board, on the executive board, and at the two managerial levels below the executive board, as well as deadlines for their attainment. Comprehensive monitoring is to show how the Act is implemented in the relevant companies.

160. Differences remain in the remuneration levels of men and women. In order to enforce the principle of “equal pay for equal or equivalent work”, the Federal Government will initiate an Act for more wage justice and more transparency in gender-specific pay structures.

161. The Federal Government also aims to undertake simplifications of the law in the basic social security benefits for jobseekers. In future, those entitled to benefits are to be informed about their rights more quickly and more clearly. At the same time, the procedural rules to be applied by the staff in the job centres are to be simplified, and the burden on the Social Courts reduced. The Act is expected to enter into force in the second half of 2016.

### **Keeping housing affordable, strengthening social urban development**

162. Affordable rents are important prerequisites for appropriate participation in society. In many western German and some eastern German conurbations, rents and real estate prices have risen sharply and are indicative of shortages on the housing market, some of them severe. The current refugee numbers are exacerbating the housing shortage. The aim is to meet these housing needs without neglecting social, demographic and energy-related aspects. This will necessitate the building of at least 350,000 new dwellings a year in the coming years. Since only approximately 270,000 new dwellings were completed in 2015, the Federal Government believes that further action is required going beyond the current assistance measures. It therefore intends to run a House Building Campaign to bring about effective relief on the housing markets. In the context of the Alliance for Affordable Housing and Construction, a ten-point package of measures for affordable housing has been put together; it is to be implemented in cooperation with the Länder and other partners in the alliance. In addition to this, tax concessions in the form of a special depreciation allowance for newly built rental housing are to provide incentives to rapidly create affordable housing on

tight housing markets. The Federal Government is engaged in discussions with the Länder about this. Also, the Act to Accelerate Asylum Procedures has topped up the compensatory funding from the Federal Government to the Länder for the promotion of social housing from 2016-2019 from an annual amount of approximately €518 million by another €500 million to exceed €1 billion a year.

163. In addition to more intensive support for the Länder as they promote social housing, the Federal Government is also helping those households particularly affected by the housing shortage. The housing benefit reform, which entered into force on 1 January 2016, helps low-income households. In order to avoid a disproportionately great rise in the rents charged to new tenants, the Federal Government launched the Act to Slow the Rise in Rents on Tight Housing Markets and to Strengthen the Principle that the Client Pays the Estate Agent last year. It entered into force on 1 June 2015 and its measures include a rent control mechanism. The Federal Government is currently looking into further measures in the field of rental law, particularly with regard to the modernisation of rented accommodation and the production of good rent level surveys.

164. The Federal Government's “Social City” urban development promotion programme aims to help municipalities with urban planning measures in socially and economically disadvantaged neighbourhoods which also help to boost integration and participation. In 2015 and 2016, the Federal Government has so far provided the programme with a total of about €290 million.

### **Modernising the health sector**

165. The new possibilities offered by information and communication technologies, together with advances in biotechnology, will have a lasting impact on medicine. Big data applications can further improve understanding of how diseases arise. Prevention strategies can be developed and their effectiveness reviewed, and new effective forms of therapy can be found. Also, big data can improve the range of medical services tailored to the needs of the individual patient. Digitisation is also creating new possibilities for greater independence in old age. New forms of telemonitoring, in which it is possible to follow the course of a disease in real time and to respond quickly in case of need, will support a longer, self-determined life in the familiar setting of an individual's home.

166. The Act on Secure Digital Communication and Applications in the Healthcare System and to Amend other Acts (E-Health Act) entered into force at the beginning of 2016. This adapts the legal framework for a secure and trusted infrastructure – the telematics infrastructure – to current developments. It is important to rapidly develop the potential offered by digital applications in terms of care, commerce and jobs in the health sector. The examples of applications include electronically generated emergency data, a medication plan and telemedical services such as online consultations. All sides can benefit from the digital networking of the health sector.

167. If digital medical applications are to be taken up, it is crucial to protect the highly sensitive health data. For this reason, the highest security standards must be maintained when the telematics infrastructure is established: there must be clear access rights, a record of doctors' access to data, double encryption of medical data, and the possibility for the patient to delete data. In all this, it is crucial for the relationship of trust between the doctor and the patient to be fully maintained.

168. The aim is that the telematics infrastructure and its security characteristics should become the central communication infrastructure in the health sector. For this reason, applications which do not use the electronic health card, such as communication between service providers, should also be supported. The telematics infrastructure should be opened up to further service providers, such as long-term care providers. Not least, the E-Health Act aims to improve interoperability, i.e. overarching inter-system cooperation, in the health sector.

### **Safeguarding the quality of medical and nursing care**

169. The Federal Government is continuing to vigorously pursue its quality campaign in the health sector. The Hospital Structure Act is a part of the shift towards efficient, needs-oriented, patient-oriented and high-quality care provision structures. Quality is becoming a major indicator in the hospital sector, to be observed both in the planning of capacities and in the remuneration of hospital services. In order to improve the care structures, a structural fund of €500 million is being set up. Adding in the matching contribution from the Länder, this means that €1 billion can be spent on promoting the reduction of overcapacities and the specialisation of hospitals by concentrating and converting their capacities.

170. A nursing staff promotion programme is being set up to improve nursing care. The programme will be gradually built up between 2016 and 2018. In 2016-2018, the funding will amount to up to €660 million. Following the end of the funding programme, additional funding of up to €330 million a year will continue to be provided to the hospital sector. A nursing surcharge with annual funding of €500 million will be introduced to improve the funding of existing staff providing long-term care.

171. The availability of doctors in rural and structurally weak regions is a fundamental challenge posed by demographic change. In the Act to Strengthen Care from the Statutory Health Funds, the Federal Government has increased the incentives for the licensing and establishment of doctors in undersupplied areas and strengthened the availability of general practitioner care. The Act also provides for the establishment of an innovation fund in the statutory health insurance system. Between 2016 and 2019, funding will go towards innovative, cross-sector care projects and care research worth up to €300 million a year.

172. The field of care for the elderly is also being affected by demographic change. It is necessary to adapt the training of nurses to the changed supply structures and needs for nursing care and to make the training more attractive so that Germany can meet its growing need for skilled workers. Not least, this is the goal of the training and skills development campaign for care for the elderly and of the planned Caring Professions Act. In this way, the Federal Government wishes to lay the foundations for a modern, forward-looking profession of care providers. This will incorporate the current separate vocational training programmes for “care for the elderly”, “nursing and health-care”, and “nursing and paediatric care” into a new, general and standardised nursing training programme.

In addition to the question of an adequate supply of skilled workers, the Federal Government is also addressing the quality of nursing care. The Federal Government's Second Act to Strengthen Long-term Care is creating a new definition of the “need for long-term care”, in which such care is guaranteed equally for people with physical and mental disabilities. The move from three categories of care to five levels of care provides the basis for a much more objective assessment of individual care needs, including now also for those suffering from dementia.

### Welfare insurance is benefiting from the good employment situation

173. The welfare insurance funds are benefiting from the ongoing positive trend on the labour market. Despite an expansion in the services, particularly in the field of long-term care, the contribution rates have been kept relatively stable. The contribution rate in general pension insurance has been gradually reduced, not least due to the favourable development in employment over recent years, from 19.9% in 2011 by a total of 1.2 percentage points to 18.7% in 2015. It will remain stable at this level in 2016.

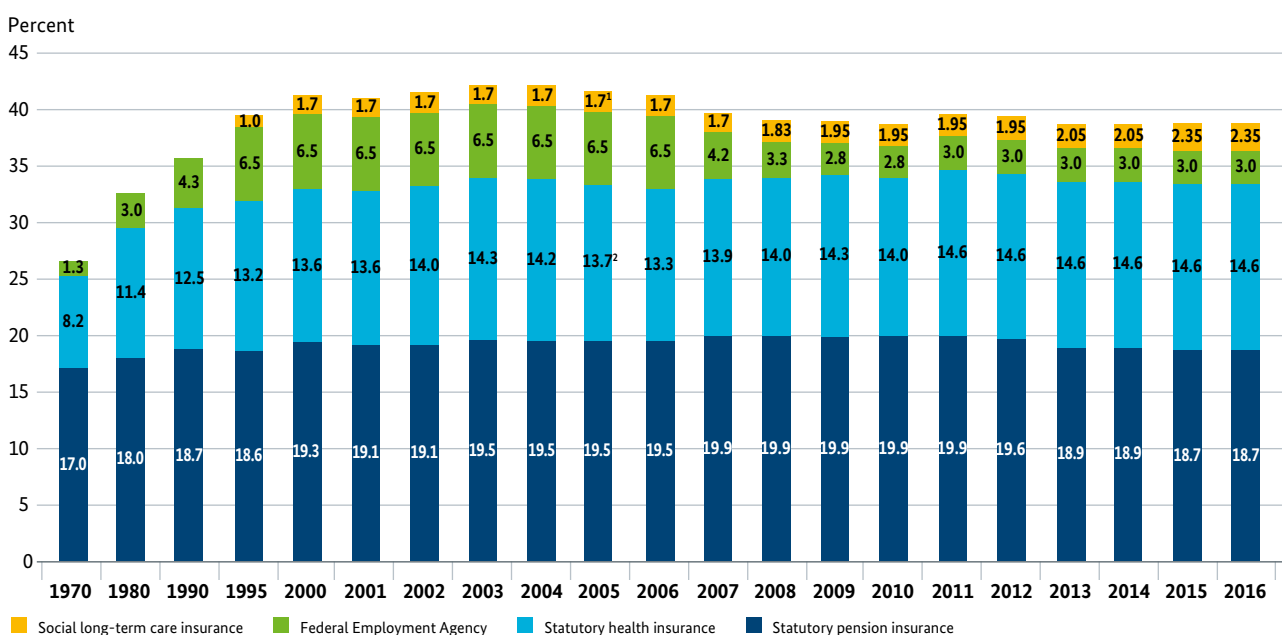
174. The contribution rate towards statutory health insurance, financed equally by employers and employees, will remain stable at 14.6% in 2016. The contribution rate to social long-term care insurance was raised by 0.3% in 2015 in order to fund the extra services. Both branches of welfare insurance can be expected to retain the same general contribution rates in 2016 as in 2015. The income-based supplementary premiums introduced on 1 January 2015, specific to each statutory health fund, have increased competition between the funds. Last year, the supplementary premiums amounted to between zero and 1.3 percentage points, depending on the fund, and the (estimated) average stood

at 0.9 percentage points. For the current year, the Federal Government is assuming that the average supplementary premium rate will be 1.1%. In view of the substantial broadening of services described above, this development can be regarded as relatively moderate. Overall, the contribution rate to welfare insurance has remained stable in recent years.

### F. Pressing ahead efficiently with the energy transition

175. The energy transition is one of the Federal Government's key projects. It is not only making it possible to phase out nuclear power by the end of 2022, but is also helping Germany to attain its climate targets. An efficient and sparing use of energy and an ongoing expansion of renewable energy are the two core strategies for the continuation of the energy transition. The energy-policy triangle consisting of affordability, energy security and environmental compatibility continues to be the guiding principle of energy policy. In its implementation of the energy transition, the Federal Government is making sure it safeguards the competitiveness of German industry. Germany has set itself the aim of cutting greenhouse gas emissions by at least 40% by 2020 and by 80-95% by 2050 from 1990.

**Diagram 6: Annual median equally-funded social security contribution rates as a percentage of gross assessable earnings**



<sup>1</sup> Excluding the 0.25% supplementary contribution from the childless levied from 1 January 2005

<sup>2</sup> General contribution rate (equally financed, excluding member-specific special contribution of 0.9% from 1 July 2005 until 31 December 2014)

Source: Federal Ministry of Labour and Social Affairs, status: January 2016.

In order to achieve these goals, the Federal Government launched a comprehensive action package in 2014 in the form of the Climate Action Programme 2020. On top of this, the Federal Government intends to adopt the 2050 Climate Action Plan in the summer of 2016. In addition to the national efforts, the Federal Government is also calling at European and international level for an ambitious energy and climate policy and a reliable policy environment.

176. The energy transition is also a driver of innovation, growth and employment. Cutting-edge wind power technologies, IT-based control of a complex electricity supply, highly efficient and flexible power stations, modern transmission technologies and storage – all of these are examples of technologies and capabilities which are in demand all round the world as countries develop a modern energy supply. Germany is internationally competitive in these forward-looking fields. At the same time, the restructuring of the energy supply is confronting the German economy with major challenges. If the energy transition is to be an environmental and economic success in Germany, all stakeholders need certainty for planning and investment, the fields of action in the energy transition need to be dovetailed more closely, and the measures designed need to be cost-efficient and acceptable to the public.

#### **Expanding renewable energy in a manner which permits planning and keeps costs down**

177. In terms of the expansion of renewable energy in the electricity sector, Germany is on course to meet the challenging targets it has set itself (cf. Diagram 7). The Renewable Energy Sources Act, which was revised in 2014, placed the funding of renewable energy on a viable basis. The expansion is taking place in a manner which is better suited to helping stakeholders plan and to keeping costs down than before. From 2017, the funding rates for renewable energy are generally to be set by auction. The specific auction models for the various renewable energy technologies are to be stipulated this year in a further revision of the Renewable Energy Sources Act. The Federal Government gained initial experience with this in the context of three pilot auctions for ground-mounted photovoltaic installations. The Federal Government's aim is that the auctions should create more competition and ensure that the cheapest projects using the specific technology will be rolled out. The new funding system is to maintain a broad diversity of stakeholders and ensure that the deployment corridor for renewable energy is adhered to. At the same time, the Federal Government is keeping an eye on the costs of the

overall system. Initial pilot auctions are to be held in 2016 with a view to allowing operators of new installations in other European countries to participate. In contrast to the regular call made by the German Council of Economic Experts (cf. GCEE Items 697 ff.), the Federal Government is basically sticking to a technology-specific funding system. Technology-neutral auctions would run counter to a technology mix which is advantageous for the energy sector in the long term.

#### **Continuing to ensure energy security**

178. A secure supply of electricity and gas remains a central factor in a successful energy transition. In the electricity market of the future, electricity generation from conventional and renewable sources is to be dovetailed and security of supply should be achieved as cheaply as possible. The fluctuating supply of electricity from renewable energy must be aligned with the overall electricity system. This means not least that conventional power stations and electricity consumers will have to respond considerably more flexibly in future to the feed-in of wind and solar power – a massive synchronisation task. This necessitates a smart market design. The Federal Government presented key elements for such a design in July 2015 in the White Paper “An Electricity Market for Germany's Energy Transition”. It is rooted in the findings of the Green Paper consultation process and forms the basis for the Electricity Market Act. The aim is to develop the existing electricity market into an electricity market 2.0: to strengthen market forces, to activate potential for flexibility, to increase transparency and to improve the European integration of the electricity market. A capacity reserve provides a further safeguard for the electricity supply in case of generation shortfalls in exceptional situations. In order to make a contribution towards the national 2020 climate target, lignite-fired power stations on the electricity market will be placed on “security stand-by” and decommissioned after four years.

Further cuts in carbon emissions are to be achieved via the increased use of low-emission combined heat and power generation (CHP) and other efficiency measures. The revision of the CHP Act, which entered into force at the beginning of 2016, has improved the funding for CHP and oriented it to the goals of the energy transition. To this end, the Federal Government has increased the volume of funding, focused the assistance on climate-friendly gas-fired CHP installations, and shared the burden of costs more fairly.

179. The supply of gas in Germany is very reliable compared with that of other countries. Germany has a widespread and widely branching gas grid, the largest gas storage capacity in the EU, liquid trading markets and a diversified portfolio of import routes and supplier countries. The Federal Government is continuing to support the diversification of supply routes and supplier countries, also at European and global level. In 2016, measures to strengthen the balancing energy market are to be implemented which will further improve the security of the gas supply in Germany. Further to this, the expansion of renewable energy and energy efficiency measures will reduce the gas demand in the long term and thus the level of import dependency.

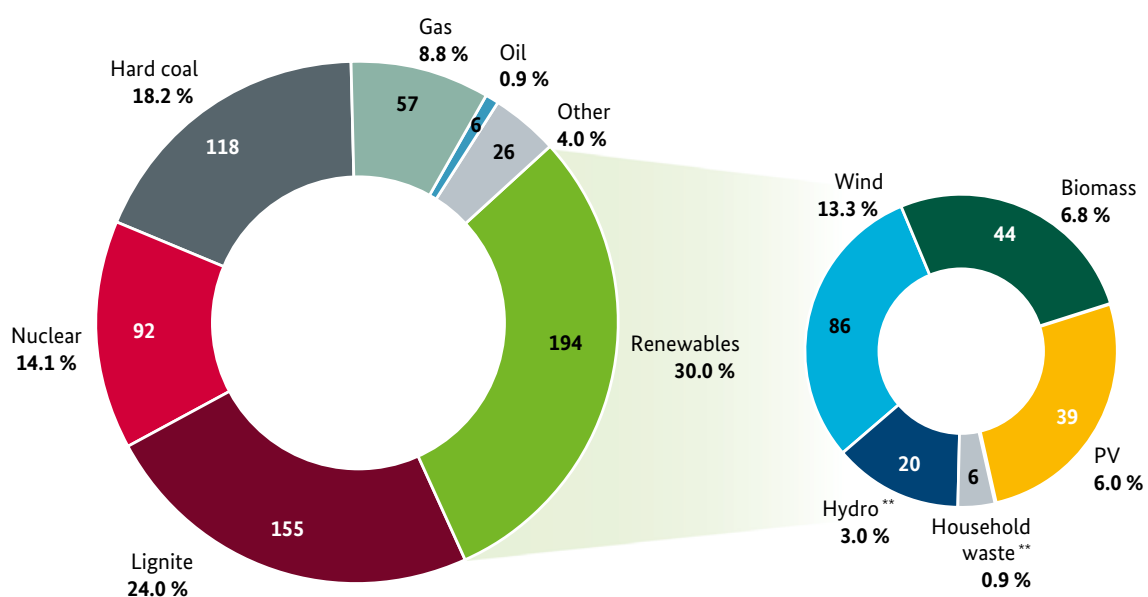
180. The Federal Government's declared objective is to ensure that the long-term technical and financial aspects of the safety of nuclear power plants while they are still in operation, their decommissioning, dismantling and the disposal of the radioactive waste, are safeguarded. To this end, the Federal Government has set up a Commission to Review the Financing for the Phase-out of Nuclear Energy. It is to come up with recommendations on how the financing of the decommissioning, dismantling and the disposal can be designed in a way that allows companies to

remain viable in the long term so that they can meet their obligations in the nuclear energy field. The Federal Government has also adopted an Act on Extended Liability for the Dismantling of Nuclear Power Plants and the Disposal of Nuclear Waste. This should ensure that energy utilities which operate nuclear power plants remain responsible for nuclear disposal in the long term in order to reduce the risks to the public-sector budgets.

### Using energy more efficiently

181. Boosting energy efficiency is important for the success of the energy transition and helps to mitigate climate change. The aims are to reduce primary energy consumption by 20% by 2020 and to halve it by 2050 (from 2008). Many of the measures adopted in the National Action Plan on Energy Efficiency were rolled out in the course of 2015. For example, the Federal Government has improved the funding terms in the CO<sub>2</sub> Building Renovation Programme and the Market Incentive Programme for the use of renewable energy on the heat market, and has updated the funding programme for the introduction of highly efficient horizontal technologies for small and medium-sized enterprises. It has introduced mandatory energy audits for

**Diagram 7: Gross electricity generation in Germany in 2015 in TWh\***



\* Provisional \*\* Regenerative share

Geothermal energy not shown due to small volume.

Source: Working Group on Energy Balances, status: December 2015.

larger companies and brought about an agreement to set up 500 energy efficiency networks in the industrial sector. The revised Act on Energy Consumption Labelling has also introduced a national efficiency label for old boilers to inform consumers about the energy efficiency of their old appliances. The Energy Efficiency Incentive Programme was introduced at the beginning of 2016 as an alternative to the tax assistance envisaged in the National Action Plan on Energy Efficiency. It supplements and strengthens the existing funding system for energy efficiency and renewable energy in the building sector. This year, the first competitive auctions are to be held for the funding of energy efficiency measures in companies. The aim is to use market forces to stimulate innovation and attain efficiency gains more cheaply.

182. Building on the National Action Plan on Energy Efficiency, the Federal Government also adopted the Energy Efficiency Strategy for Buildings in 2015. The Energy Efficiency Strategy for Buildings explores ways of achieving the goals of energy and climate policy. It thus makes an important contribution to the development of approaches towards a climate-neutral building stock by 2050. Since January 2016, the higher standard for new buildings set out in the 2014 revision of the Energy Conservation Ordinance has been in force. By the end of 2016, the nearly-zero energy building standard – i.e. the minimum requirements for new buildings which are technically and economically feasible – will be introduced, thereby transposing the EU Energy Performance of Buildings Directive. In this regard, the energy-saving legislation relating to buildings is being restructured, and a harmonised regulatory system of energy requirements for new and existing buildings as well as the use of renewable energies for heating is being put in place.

183. The National Action Plan on Energy Efficiency and the afore-mentioned measures in the field of energy consumption and energy efficiency make an important contribution towards attaining the national climate targets and meeting the target set out in the EU Energy Efficiency Directive of energy savings of 1.5 % a year. Further carbon emission reductions are to be attained via measures in an additional energy efficiency package for buildings, municipalities, industry and the railways (Deutsche Bahn). In order to finance the measures of the energy efficiency package, the funding in the Energy and Climate Fund is to be topped up to a total of up to €5.8 billion in the years to 2020.

184. With a view to the attainment of the efficiency targets, public consultations on a Green Paper are scheduled for

2016, covering the medium-term and long-term shape of the instruments for energy efficiency.

### **Pressing rapidly ahead with grid expansion in a citizen-friendly manner**

185. The expansion of renewable energy in the electricity sector in the north and east of Germany is creating challenges for the grid infrastructure. Efficient electricity grids are needed to transport the electricity generated there to the centres of consumption in the south and west of the country. Grid expansion is the backbone of a successful energy transition.

186. The Federal Government has put the policies in place for expanding the grid more quickly and gaining more public acceptance for it. For new “electricity highways” (direct current ultra-high transmission lines), federal planning has awarded precedence to underground cabling since 31 December 2015. Where people live, overhead DC lines will not be permitted. In other areas, overhead lines will only be possible in certain exceptional cases, particularly for reasons of nature conservation or where territorial authorities require this due to local interests. For new alternating current lines, for which it is technically more difficult to use underground cables, the criteria and the number of pilot projects for sections of underground cabling have been expanded.

187. Also, the requirement plans pursuant to the Federal Requirements Plan Act and the Power Grid Expansion Act have been adapted. These prescribe the grid projects needed by the energy industry and their binding starting and end points. The specific route of the grid will subsequently be the subject of public consultations and then decided. The adaptation of the requirement plans took place on the basis of the 2024 grid development plan confirmed by the Federal Network Agency. In autumn 2016, the 2025 grid development plan and the 2025 offshore grid development plan are to be confirmed. The grid development plan processes, the timing of which often overlaps, are to be developed every two years instead of every year following a change to the law which entered into force on 1 January 2016.

188. Smart metering systems form the technical basis for a large number of applications in the fields of grid operation, electricity market, energy efficiency and the smart home. The Federal Government's draft of an Act on the Digitisation of the Energy Transition creates a legal framework for

the deployment of such systems. Smart metering systems and networked communication platforms are to facilitate a more targeted alignment of electricity generation and consumption, promote a more efficient use of energy, and permit more flexible tariffs for consumers. The draft legislation includes minimum technical requirements for smart metering and communication systems and metering details, as well as rules on data protection and data security. It also stipulates who is required to install smart meters or metering devices and when.

189. Since a large proportion of the electricity from renewable energy is fed directly into the distribution grid, grid expansion at distribution grid level also plays a key role in determining the success of the energy transition. The revision of the Incentive Regulation Ordinance, which is slated for 2016, is to make the regulatory framework for grid expansion more investment-friendly. With regard to the grid charges, the regional disparities are to be reduced. To achieve this, the White Paper on the electricity market proposes to abolish the avoided grid charges for new installations built from 2021 and to introduce a uniform nationwide charge for the use of the transmission grid. Further to this, the Federal Government is aiming to revise the legal framework for the award of concession rights in the field of electricity and gas supply. The intention is to arrive at a clearer regulation of the evaluation procedure for the award of new concession rights in the field of electricity and gas supply and to improve legal certainty at the gateway.

### **Making progress on European energy and climate policy and global climate change mitigation**

190. As called for by the German Council of Economic Experts (cf. GCEE Item 703), the Federal Government is continuing to advocate the reliable implementation of the ambitious energy and climate targets at European and global level. It is firmly committed to the attainment of the EU 2020 targets on climate change, the expansion of renewable energy and the improvement of energy efficiency. It is also working to establish reliable rules in order to implement the 2030 Climate and Energy Framework and the Energy Union adopted by the European Council. The aim of the Energy Union is a secure, affordable and environmentally sustainable energy supply for Europe's consumers.

In the context of the Energy Union, the Federal Government is actively driving the process for closer regional cooperation. In June 2015, Germany and its eleven "electrici-

cal neighbours" signed a joint declaration on the security of the electricity supply in the context of a dialogue process. In the declaration, the states agreed on principles for enhanced regional cooperation in this field. This dialogue process is being continued in 2016.

191. In September 2015, the EU Council of Environment Ministers formally approved the introduction of a market stability reserve for European emissions trading from 2019. The aim of this reform is for emissions trading once again to provide stronger incentives for investment in low-emission production technology. The European Commission also presented a proposal in July 2015 for a revision of the ETS Directive for the 2021-2030 period in order to implement the new 2030 climate target in the field of emissions trading. Consultations on this have begun. The Federal Government is in favour of implementation of the targets and guidelines agreed at the October 2014 European Council. These particularly refer to the climate targets, the initiated reform of emissions trading and measures to protect the international competitiveness of the relevant industries and to avoid carbon leakage.

192. International efforts to combat climate change continue to be a political priority for the Federal Government. Germany was particularly able to give a key boost to this in the context of the German G7 Presidency in 2015. The Federal Government also worked towards the conclusion of the global climate agreement concluded at the climate conference in Paris at the end of 2015, and is now working towards rapid implementation (cf. Box 4).

### **Developing tomorrow's energy technologies**

193. Energy research paves the way for the future of the energy supply. From the conversion of energy to its transport, distribution and storage, and its use in companies and households: new technical solutions are needed throughout the energy system if the energy transition is to be mastered successfully. The Federal Government has anchored the basic features and priorities of its funding policy in the Sixth Energy Research Programme. In addition to energy efficiency and renewable energy, the funding also focuses on new grid technologies and energy storage. The Federal Government is providing approximately €950 million for the research, development and demonstration of modern energy technologies in 2016. This represents a continuation of the rising trend seen in previous years (cf. Diagram 8). The assisted measures are presented in the annual federal report on energy research.

#### Box 4: Results of the UN Climate Conference in Paris

At the UN Conference of the Parties in Paris in December 2015, a new, universal, legally binding agreement was concluded which requires all contracting parties to make efforts to combat climate change. For the first time, a multilateral climate agreement overcomes the previously rigid division between industrialised countries on the one hand and emerging and developing countries on the other. The agreement sends out an important signal to society and the global economy. It contains key German and EU demands.

- The contracting parties agree to restrict global warming to well below 2 degrees compared with the pre-industrial age. They also commit to efforts to limit the rise in temperature to 1.5 degrees.
- The upper temperature limit is defined by the goal of greenhouse gas neutrality in the second half of the century. This means zero net greenhouse gas emissions. From 2018, a global review process will take place every five years in order to monitor the progress towards the long-term target.
- The national contributions towards climate change mitigation, with a time horizon up to 2030 (e.g. in particular the EU contribution) will have to be reconfirmed or updated in 2020 and then every five years from 2025 for the post-2030 period, becoming more ambitious each time.
- The states have agreed on a uniform and robust transparency system for the reporting of emissions.
- The industrialised countries are to continue to mobilise USD100 billion each year between 2020 and 2025 to finance the efforts to tackle climate change. The agreement states an expectation that the emerging and developing countries will also make financial contributions in line with their ability to do so. For the post-2025 period, a new common target is to be set for the mobilisation of climate mitigation funding.
- The agreement also aims to make the global flows of finance consistent with a development path for low-carbon and climate-resilient development. This is an important signal to the private sector to take account of the global climate needs in their investments.
- The Paris agreement stresses the significance of technology development and transfer for climate change mitigation and adaptation. The existing technology mechanism of the Framework Convention on Climate Change is confirmed in the new agreement and is to be further expanded. The intention is to enable other countries to develop in as climate-friendly a way as possible and to cope with climate change.
- For the first time, the international community has set itself a long-term target for adapting to climate change. This responds to the significance of this issue in terms of the development of many countries.
- The countries' capacity to adapt to climate change is to be strengthened and established as a target of equal importance to that of reducing greenhouse gas emissions. The developing countries, and particularly the especially vulnerable poorest countries and island nations, are to be helped with making their future "climate-proof". The effectiveness of the global adaptation efforts is to be analysed and reviewed at regular intervals.
- Also, the agreement recognises the issue of "loss and damage" and addresses it in a programme of work. However, the question of liability pursuant to this article is excluded. An important role is to be played here by insurance solutions which permit people in poorer countries to insure themselves against climate risks.

### Reviewing the development of the energy transition and shaping it in a dialogue

194. The status of the energy transition and the progress made on attaining its targets are subject to ongoing review in the “Energy of the Future” monitoring process. The central task of the monitoring process is to analyse the reams of statistical information on energy that have been collected and then condense it and make it easy to understand. An independent commission of experts is following the monitoring process. The fourth Monitoring Report adopted by the federal cabinet on 18 November 2015 builds on the fact-based reporting of the previous years and provides detailed information about the development and attainment of key energy transition indicators. It points to the need for fine-tuning with a view to a secure, economic and environmentally compatible supply of energy. At the end of 2016, the fifth Monitoring Report will continue the documentation of the energy transition.

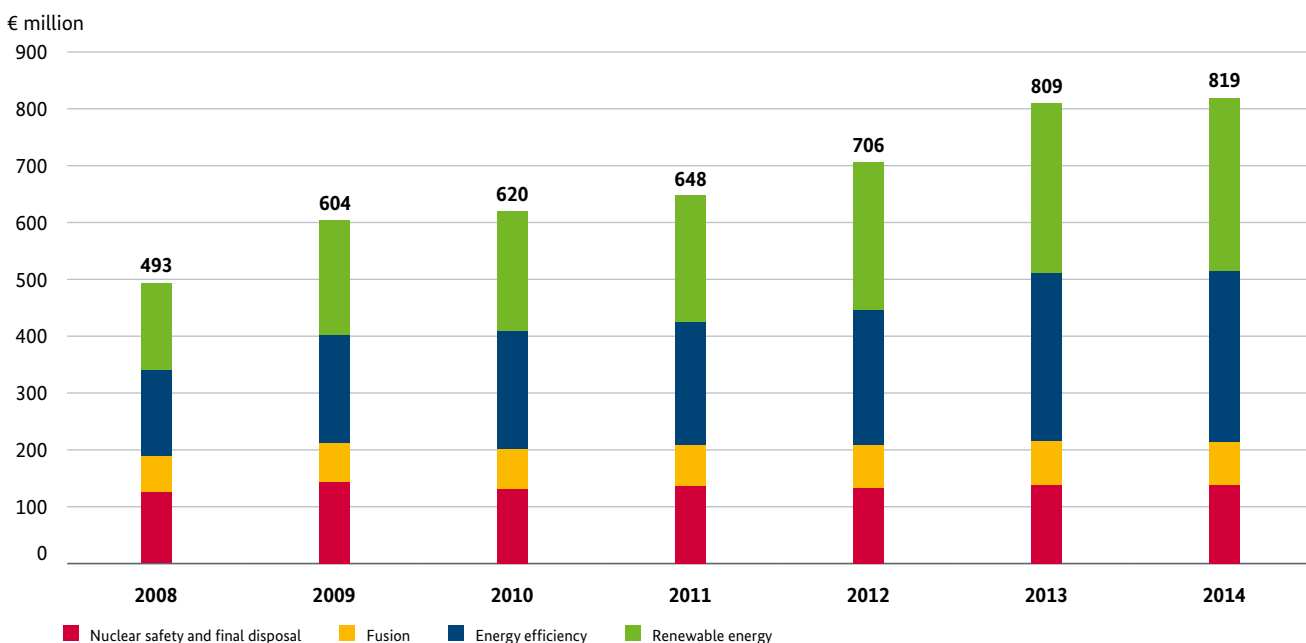
195. The energy transition is a task involving a large number of stakeholders from government, commerce, science and society. In order to draw up joint solutions and strategies for the central fields of action, the Federal Government has continued the dialogue process in the energy transition platforms on the electricity market, energy grids, energy

efficiency, buildings, and research and innovation. In order to shape the energy transition in a manner compatible with nature, the centre of excellence for “Protection of Nature and the Energy Transition” set up by the Federal Government will commence its work in the middle of 2016.

### Securing raw materials and making more efficient use of resources

196. As the first stage of the value chain, the extraction and supply of raw materials is of outstanding importance for the German economy, and particularly for industrial production. The Federal Government is supporting the companies with an integrated raw materials strategy, by improving the conditions for resource efficiency and recycling, advocating an environmentally compatible extraction of domestic mineral resources, and pressing ahead with the bio-economy strategy. In order to further improve resource efficiency, the German Resource Efficiency Programme is being developed further in 2016. The statutory framework for the extraction of domestic raw materials is being developed further in the interest of securing the availability of raw materials. Here, the protection of the environment and health is of top priority.

**Diagram 8: Federal research expenditure in the Energy Research Programme**



Source: Federal Ministry for Economic Affairs and Energy.

197. In April 2015, the Federal Government adopted a package of laws and ordinances on fracking which amends water management, nature conservation and mining rules. Here, the protection of health and the quality of drinking water enjoy absolute priority. The implementation in law is to be completed in spring 2016.

## **G. On the path to a stronger and more stable financial sector in Germany**

198. Only a stable financial sector can ensure sustainable financing for the real economy. The rules for the financial markets have therefore been considerably revised and modernised in the last few years. This reform process aims at a lasting strengthening of confidence in the financial sector and to protect the taxpayer from having once more to rescue financial institutions in difficulty. In the market economy, those who take risks should be liable for them. Also, the Federal Government is improving the protection enjoyed by investors. A common approach is required at international level in order to stop market players from shifting across to less strictly regulated areas. For this reason, the Federal Government is calling for common European and international rules.

### **A new regulatory framework for the banking sector**

199. With a view to making the banking sector more resilient and giving investors and taxpayers better protection against the effects of potential problems, the Federal Government has translated a number of new European rules for the banking sector into national law in recent years. This has involved rules on the equity and liquidity of banks (Capital Requirement Directive, CRD IV, and the related Capital Requirement Regulation, CRR), on the recovery and resolution of banks (Bank Recovery and Resolution Directive, BRRD) and on the deposit guarantee schemes.

200. The establishment of common supervisory and resolution mechanisms by the eurozone countries represents a further step towards a banking union. The Single Supervisory Mechanism (SSM) headed by the ECB commenced work in 2014. The Single Resolution Mechanism (SRM) has been in force since the beginning of this year. Decisions on the resolution of banks which are subject to direct ECB supervision and for all banks which engage in cross-border activities will in future be taken by the Single Resolution Board (SRB) of the Member States participating in the SRM, i.e. of the eurozone countries. This means that these coun-

tries now have common instruments for the resolution of banks whose difficulties might pose a danger to the stability of the monetary union. In order to finance these resolutions, the Member States of the European Economic and Monetary Union have set up a Single Resolution Fund (SRF) which is to be filled via a banking levy (with approximately €55 billion by 1 January 2024).

The German Resolution Mechanism Act adapts German banking resolution legislation to European rules so that the SRM can be fully effective in Germany. The Act ensures that measures of the new SRB can be implemented effectively in cooperation with the German resolution authority. It also puts the foundations in place for the banking levy for the SRF to be collected from the German banks, and it introduces specific rules to facilitate the participation of creditors in banking losses (the “bail-in”). The aim is to give the taxpayer better protection.

201. By introducing the Ringfencing Act, which will take effect from July 2016, the Federal Government is further stabilising the financial markets. The Act ringfences the deposit business from risky deals. If banks exceed certain thresholds in their balance sheets and their trading activities, they may no longer operate the deposit business and their own trading operations under the same roof. They must end proprietary trading and the loan and guarantee business with hedge funds, or transfer such activities to a separate financial trading institution. The EU is also currently discussing the introduction of rules to restrict risky proprietary trading and a more strict separation of investment and retail banking in the context of a Regulation on banking structural reform.

202. In order to strengthen the stability of the banking sector, the current leverage ratio monitored by the supervisory authority can represent a useful supplement to the current risk-adjusted capital adequacy requirements in force in the banking sector. The leverage ratio provides information about the extent (in percent) to which the banks possess core capital in relation to their balance sheet total plus the off-balance-sheet activity. It is mainly calculated without reference to the risk of the transactions and it helps to identify the risk of excessive borrowing by the banks. The European Commission will present the European Parliament and the Council with a report on the effects and methodology of such an indicator by the end of 2016. On the basis of this report, the European Commission may propose legislation for the leverage ratio which, depending on their business model, the banks would have to comply with. The Federal Government will work constructively on this process.

### **Making financial markets more transparent and improving protection for investors**

203. Not all financial business takes place within the banking sector. Shares and other securities are traded on stock exchanges and other markets. These financial products and financial market participants also need to be carefully supervised and regulated in order to prevent financial market risks and to protect investors.

204. The two legislative proposals to revise financial market regulations on the basis of European rules (the First and Second Acts Amending Financial Market Legislation) mark a further step in this direction by the Federal Government: The First Act Amending Financial Market Legislation toughens up the possibilities to take action against market abuse and insider trading. It also provides for uniform European rules on supply and billing of financial instruments and on the activities of the central depositories. The Second Act Amending Financial Market Legislation extends coverage of regulation to trading floors and market participants which have not so far been regulated. In this way, the Federal Government is implementing European rules to improve the transparency and integrity of the capital markets and investor protection. Before these can be implemented in German law, implementing provisions need to be put in place at EU level. In the context of these changes, major provisions of financial market legislation like the Securities Trading Act, the Banking Act and the Stock Exchange Act are being extensively revised and modernised.

205. In order to further strengthen the trust of investors in the capital market, transparency of the shareholding structures of listed companies is being improved. The Act Implementing the Amended EU Transparency Directive entered into force on 26 November 2015. In this way, the Federal Government has tightened up the transparency rules for securities traded on the stock exchanges.

206. In order to spread their investment risk, many private investors invest in investment funds, or what the EU terms "Undertakings for Collective Investment in Transferable Securities" (UCITS). By implementing the UCITS V Directive, the Federal Government is strengthening investor security and financial market integrity in the field of the investment funds regulated in detail. In particular, the act aims to shape remuneration systems for UCITS in a way that reduces incentives to take excessive risk.

Further to this, rules are introduced for a new category of alternative investment funds which are particularly suited

to the financing of long-term projects: "European long-term investment funds" (ELTIFs) provide long-term funding for infrastructure projects, non-listed companies and listed small and medium-sized enterprises.

207. Another new rule governing voluntary delisting also serves to protect investors. In future, before a delisting takes place, investors must be offered monetary compensation. The level of the compensation will generally be based on the share price. This compensates the investor for the fact that the tradability of the share is affected by the delisting and that he may suffer a loss of value in the share due to this restricted liquidity. The procedure is designed to avoid excessive burdens being placed on companies wishing to delist.

208. In order to ensure that every citizen can use a current account with basic functions (basic account), the Federal Government launched a draft act to implement the European payment account directive in October 2015. The act is to enter into force this spring. It contains supervisory rules and consumer protection provisions. The functions of the basic account include cash deposits, cash withdrawals, transfers, standing orders, and card payments. These functions must be made available to the consumer to the same extent that the bank offers these services to other consumers. Loans are not part of the minimum services offered by the basic account. However, the bank and the consumer are free to agree on additional services including overdraft facilities or fees for overdraft facilities.

### **Making the financial system more resilient**

209. In order to make the financial system more resilient, overarching measures are needed in addition to specific rules for individual market players or sectors. These measures mainly aim to boost transparency and to set the right incentives for the players.

210. For example, the Federal Government is continuing to press for the introduction of a financial transaction tax in the context of enhanced cooperation. Germany and nine other EU Member States involved in the enhanced cooperation issued a joint declaration on this in December 2015 sketching out core elements of the tax. There is agreement to continue the work at the same level of intensity. The Federal Government aims at a financial transactions tax which covers all financial instruments if possible, and particularly shares, bonds, investment fund shares, foreign exchange transactions and derivative contracts. It is impor-

tant to avoid negative effects on small investors, the real economy and pension provision, as well as undesired shifts in the financial sector.

211. The financial crisis of recent years has shown impressively that risks derive not only from the banking system but also from the shadow banking system. At the same time, financing outside the established banking system is important for the real economy as an alternative to bank-based finance. As with finance from banks, however, the risks deriving from these sources must be carefully supervised and limited by appropriate regulation. Therefore, from an early stage the Federal Government has been calling for the effective monitoring and regulation of the global shadow banking system in the European and international context. On Germany's initiative, international work has continued since the 2013 G20 summit in St. Petersburg on the basis of binding timetables.

212. In order to avoid turbulence in the financial sector, it is very important to supervise system stability in the entire financial system – i.e. to engage in macro-prudential oversight. The aim of this supervision is to detect, assess and alleviate risks to the overall financial system. In Germany, the Financial Stability Committee (FSC) was set up in 2013 to serve as a central national macro-prudential oversight body. In order to restrict dangers to financial stability arising from excessive debt and from real estate price bubbles, the FSC has recommended putting the legal basis in place for corresponding intervention by the Federal Financial Supervisory Authority (BaFin). This addition to the macro-prudential instruments is also recommended by the International Monetary Fund (IMF), the Financial Stability Board (FSB) and the European Systemic Risk Board (ESRB), the institutions chiefly responsible for financial stability issues. Several other European states have taken similar action to extend their macro-prudential instruments. The Federal Government is participating in these international discussions.

213. In the past, risks from the banking sector have repeatedly impacted on states. In the other direction, sovereign debt crises impact on the banking sector, e.g. when banks hold too many government securities. The German Council of Economic Experts agrees with the Federal Government that the removal of regulatory privileges for claims against states is an important task, since this can lessen a direct transfer of losses to the banking system (cf. GCEE Items 52 ff.). Specifically, the Council proposes introducing lending limits for large loans to states, and risk-appropriate capital adequacy rules. The Federal Government will work

at international and European level to reduce regulatory exceptions for government bonds on bank balance sheets. This could strengthen market incentives for debt reduction, reduce the risk of infection in the banking sector from government bonds, and improve the manageability of possible state insolvencies. Here, the eurozone must press ahead with conceptual work – also independently from progress at international level (Basle).

214. On the other hand, the Federal Government explicitly rejects the European Commission's proposal for European deposit insurance. A mutualisation of deposit guarantees does not lessen the problems and risks for the banking sector, but primarily results in a transfer of liability for the existing, still very national, risks to European level. The Federal Government believes that this would create false incentives for Member States and banks, as financial risks would be shifted from the national banking sector to European level. However, the Member States would retain the possibility to substantially influence the level of these risks via their national economic and fiscal policy (e.g. tax law, debt-enforcement law). The German Council of Economic Experts also believes that the introduction of mutualised deposit guarantees would contradict the principle of the unity of liability and control, and calls for national responsibility to be retained for deposit guarantees (cf. GCEE Item 40).

### Developing the European Capital Markets Union

215. The Capital Markets Union is intended to bring the European financial markets closer together and thus to further improve the financing available to companies in the real economy. Small and medium-sized enterprises in particular are to benefit from additional opportunities to diversify their sources of finance. Cross-frontier investment within and into Europe should become easier, and at the same time the European financial system should become more resilient. According to the European Commission's Action Plan of September 2015, the Capital Markets Union is to be implemented via a large number of individual measures by 2019 (cf. Box 5). The Federal Government will continue to work actively on the Commission's initiative to form a capital market union. Here, special attention will be paid to ensuring that on the one hand a sustainable market stimulus to strengthen the forces for growth will be achieved, and on the other no new risks for financial market stability arise. At the same time, attention needs to be paid to the viability of bank-based financing, since it will continue to be an important source of finance for small and medium-sized enterprises in future.

The German Council of Economic Experts welcomes a well-designed European Capital Markets Union which reduces frictions in capital market financing (cf. GCEE Item 461). It shares the Federal Government's view that specific forms of financing should not be favoured, and that distortions should be reduced.

## H. Strengthening Europe, intensifying international relations

216. Prosperity, growth and employment in Germany are inseparably linked to the political and economic development in Europe and the world. The Federal Government therefore calls for a further development of the European Economic and Monetary Union, the strengthening of joint institutions and the establishment of incentives for sustainable action by the Member States of the European Union. The Federal Government is also working outside Europe's borders to intensify and responsibly shape international economic relations.

## Continuing the development of the European Economic and Monetary Union

217. As a common currency, the euro is the logical and necessary continuation of the European integration process. Despite many successes in European integration, the financial and economic crisis revealed major weaknesses in the European architecture. Since then, numerous institutional improvements have been implemented. The European Stability Mechanism (ESM), the banking union and the improved rules on financial and economic policy supervision have placed the Economic and Monetary Union in a much more stable position than it was before the crisis. It is also important to keep modernising the European economies and to vigorously develop the European Semester further in this direction.

218. The work to deepen the Economic and Monetary Union must be continued. In June 2015, the presidents of the European institutions presented their ideas for this in a report. In the view of the Federal Government, the goal of future reforms must be to develop an internationally competitive Economic and Monetary Union which fulfils the promise of the European Union to promote democracy, the rule of law, security, stability, prosperity and jobs. This includes stable public finances, a modern polity, attractive investment conditions and an open single market.

### Box 5: European Commission's Action Plan on Building a Capital Markets Union

The European Commission's Action Plan aims to establish a single European capital market for all Member States in the long term.

The Action Plan presents specific proposals for legislation which focus on a revival of a solid securitisation market and on the attractions of financing infrastructure projects by creating a new asset class with its own capital requirements in insurance supervision rules (Solvency II). The Commission has also presented a proposal for a new Prospectus Regulation, which particularly aims at relaxing the requirements for small and medium-sized enterprises.

For the current year, the additional measures announced include the following:

- measures to promote venture capital finance,
- proposal for a fundamental EU arrangement for corporate insolvencies,
- study into the need for a uniform EU framework for loan-originating funds,
- report on work to remove barriers to the free movement of capital,
- White Paper on governance and funding of the European supervisory authorities.

An important step towards reaching this goal is to implement measures that have already been adopted and to credibly comply with and apply existing rules and procedures. These include the EU's Bank Recovery and Resolution Directive, the implementation of structural reforms and budget consolidation requirements by the Member States, and their rigorous supervision by the European Commission and the Council of the European Union. In order to achieve a lasting reduction in debt-to-GDP ratios, the focus must be on a stability-oriented application of the Stability and Growth Pact. The European Commission's role as the guardian of the treaties must not be impaired by its policymaking task. The Commission's supervisory tasks must be undertaken independently of political interests. The current decision by the Commission regarding a euro-zone fiscal council is not yet sufficient for these purposes. The Commission's intention to strengthen competitiveness and national ownership in the implementation of the reforms is welcomed. Discussions are still taking place at European level about subjecting the implementation of the reforms to greater scrutiny by national institutions. However, the Federal Government unambiguously rejects any influence on the national wage formation processes. The financial supervision decision-making structures must be fully separated from the ECB's monetary policy in order to exclude the possibility of conflicts of interest. In the field of the banking union, further steps must be taken to reduce risks (cf. Item (200)).

219. Furthermore, it is important to develop a long-term vision of the institutional future of the Economic and Monetary Union. This includes a willingness to consider treaty changes. Unlike the German Council of Economic Experts, the Federal Government does not believe that these are out of the question (cf. GCEE Item 39). After all, the crises of recent years have shown that they can be overcome not by less, but by more and particularly by a better Europe. The proposals should permanently strengthen the viability of the Economic and Monetary Union and the resilience of the euro and consolidate the preconditions for a high level of growth, competitiveness and employment, and for sound public finances. They should be judged against the following principles:

- Fiscal and economic policy coordination must be improved further. The framework for good reform policy at national level must be strengthened; false incentives must be avoided.
- Financial liability and control must not be separated.

- There must be high standards for democratic legitimacy at national and European level.
- New, permanent financial transfers on a macroeconomically relevant scale must not take place. These would clearly ask too much of the Member States with stronger economies in terms of their willingness to pay and would thus place a question mark over the cohesion of the Economic and Monetary Union.
- Account must be taken of the principle of subsidiarity.

### Promoting structural reform

220. In addition to institutional improvements, further structural reforms are indispensable for cohesion and future growth in Europe. Spain, Ireland and Portugal made successful use of the temporary financial support provided during their adjustment programmes to implement structural reforms. The three Member States are now financing themselves unaided on the capital market. The economic policies of the programme countries will continue to be followed closely after the conclusion of the programme as part of fiscal and economic policy coordination in the EU and within the framework of post-programme surveillance.

221. Also, Cyprus, which is the only country apart from Greece still receiving financial assistance and participating in an adjustment programme, is generally making good progress. The country has recently developed better in economic and fiscal terms than expected. Greece is receiving financial assistance in the context of a third adjustment programme from the European Stability Mechanism. The core elements of the three-year programme for Greece include an ambitious budgetary policy, the establishment of an asset and privatisation fund, a sustainable restructuring of the pension system, the introduction of basic social security benefits, the battle against tax evasion and corruption, and the modernisation of the Greek administration.

222. In November 2015, the European Commission presented a proposal for a regulation on a programme to support structural reforms in the 2017-2020 period. The Federal Government welcomes the European Commission's proposal to extend the support for structural reforms to all Member States.

### Investing in Europe's future

223. The economic and financial crisis saw a slowdown in private-sector investment activity which in some cases is continuing to this day. For this reason, the European Commission launched an investment initiative in November 2014. The European Fund for Strategic Investment (EFSI) is a key element of this initiative. This is to mobilise private capital for strategic investment under the umbrella of the European Investment Bank, particularly in the fields of infrastructure and innovation, in order to leverage €315 billion in additional investment. Germany will substantially support the European investment initiative and provide approximately €8 billion via the KfW to finance EFSI projects. Another element of the investment initiative is an improved environment for investment. Here, it is particularly important to provide reliable, predictable rules and to remove barriers to investment across Europe. In order to provide additional support to the implementation of investment projects, an advisory hub and a publicly accessible European internet database are to be set up, containing potential investment projects.

224. The European Structural and Investment Funds (ESIFs) also make a significant contribution to strengthening investment in the EU (cf. 2015 Annual Economic Report, Item 201). The ESIF is co-financed with national public or private resources. Greater attention will be paid than was the case in the preceding funding period to ensuring that the selected projects make effective contributions to growth, competitiveness and employment.

Germany can use a total of €28.8 billion from the ESIF in the 2014-2020 funding period. The funding chiefly flows into economically weaker regions with the aim of eliminating their disadvantages and helping them keep up with the pace of general economic development at the national and European levels. Most of the funding for Germany comes from the European Regional Development Fund, which is focused on "innovation and research", "support for small and medium-sized enterprises", and "the low-carbon economy". The Länder are responsible for executing the programmes funded by the European Regional Development Fund.

### Boosting (youth) employment in Europe

225. Boosting the employment – particularly of young people – is one of the key challenges for Europe in view of continuing high youth unemployment in some Member States. There is a need for socially acceptable structural reforms on

the labour markets and a boosting of growth via targeted investments in the relevant Member States. The focus of the employment policy coordination at European level includes the functioning of the labour markets, an active and preventive labour market policy, fostering mobility and introducing elements of dual vocational training in the vocational training systems.

The Federal Government is involved in numerous programmes in the context of European employment policy, and is also carrying out its own measures. Germany will continue to set a good example and to work to promote employment in Europe.

### Continuing to open up markets beyond Europe

226. The single market with the free movement of goods, services, capital and persons provides a crucial foundation in Europe for economic performance and rising incomes. The Federal Government also advocates a trade policy based on opening up markets, also to countries and regions outside Europe. Existing trade barriers should be further reduced, in order to make a contribution towards more growth and employment.

At the same time, the multilateral trading system remains the focus of European and German trade policy. It brings industrialised, emerging and developing economies together in a transparent and reliable regulatory framework for global trade. Strengthening the World Trade Organization is therefore an important policy of the Federal Government. However, no consensus on an overall agreement is in sight in the current Doha Round of negotiations. Nevertheless, an important step forward was taken at the 10th Ministerial Conference of the WTO held in Nairobi from 15-19 December 2015. The Federal Government welcomes the agreements made there in the field of agriculture and on the integration of the least developed countries into the multilateral trading system.

227. In view of the bogged-down negotiations in the current world trade round, the Federal Government is interested in more flexible, plurilateral negotiation formats. These should be engaged in with a view to subsequently feeding the outcomes into the WTO framework. The Federal Government welcomes the conclusion of the Information Technology Agreement at the 10th Ministerial Conference in Nairobi and progress on the ongoing plurilateral negotiations on the Environmental Goods Agreement and the Trade in Services Agreement.

228. At the same time, the Federal Government is also working towards bilateral free trade agreements with important third countries. In view of the market size and market potential, these include the countries of the Asia-Pacific region as well as the U.S. and Canada. Bilateral free trade agreements improve market access opportunities for German and European companies in non-EU countries and make it possible to actively shape international trade rules. They can also pave the way towards multilateral trade liberalisation.

229. The negotiations on a Transatlantic Trade and Investment Partnership (TTIP) between the EU and the USA have been underway since 2013. The aim is to open the markets further on both sides of the Atlantic and to conduct a transatlantic regulatory dialogue on standards; here, the Federal Government wants to see benchmarks set in the form of high standards. In particular, Germany's export-oriented SMEs will benefit from far-reaching market liberalisation. In the long term, the rules and regulations in Europe and the U.S. should be designed in a way that makes them harmonise better. Tariffs and other barriers to transatlantic trade should be reduced. Furthermore, restrictions in the commercial services sector should be reduced, security of investment improved, the playing field levelled out, and access to public procurement contracts at all levels of government simplified. At the same time, rules agreed between the EU and U.S. can provide a model for the development of multilateral provisions and bilateral agreements of other countries. In the context of TTIP, the EU also wants to promote the reform of existing provisions, e.g. in the field of investment protection (cf. Box 6). The Federal Government is supporting the European Commission as it negotiates the Transatlantic Trade and Investment Partnership. It aims to ensure that high standards of protection, particularly in the field of protection for the environment, workers, consumers and data, as well as IT security and public services, can be maintained or put in place, and that the precautionary principle is retained. Also, the negotiations should be intensified with a view to concluding them before the end of this year.

The EU's proposal for modern investment protection takes up key German proposals. It aims at greater transparency, investment courts with permanent judges and preserves the right to regulate for public policies. The German Council of Economic Experts also underlines the great economic significance of TTIP for an exporting nation like Germany, and particularly the reduction of non-tariff trade barriers. The Council agrees with the Federal Government that the standards and rules in this partnership agreement could

point the way forward for other trading partners (cf. GCEE Item 72).

230. At the beginning of August 2014, the EU and Canada announced the conclusion of the negotiations launched in 2009 on a Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada. The agreement will result in an appreciable reduction in existing trade barriers between the EU and Canada. The EU and Canada have agreed to comprehensively reduce tariffs on industrial goods. This will help German companies, particularly in the engineering and chemical sectors. The agreement will also provide for better access to public-sector contracts. The text of the agreement is currently undergoing legal scrubbing by the European Commission. In the course of this process, the European Commission would also like to discuss with Canada the main EU reform proposals for investment protection in the agreement with the U.S. (cf. Box 6). Following this, the agreement will be translated into the official languages of the EU and transmitted to the Council of the European Union and then to the European Parliament.

231. With a view to further strengthening international economic relations, the Federal Government supports German firms as they develop new foreign markets which have so far proved difficult to access. Export credit and investment guarantees to back German business abroad have established themselves as effective instruments. There is a high level of demand for these from German companies, not least due to a growing sensitivity regarding risks abroad in the wake of the global crisis.

State export credit guarantees (Hermes guarantees) safeguard German exporters and the banks financing them against defaults in the export business due to commercial and political problems. Exports to markets with an increased potential risk can often only be realised with state backing, since the availability of private-sector export credit insurance is limited. In 2015, the Federal Government provided export credit guarantees worth approximately €25.8 billion.

The Federal Government uses investment guarantees to insure foreign direct investments of German firms in developing and emerging economies against political risks. In 2015, the Federation provided guarantees worth more than €2.6 billion; the total amount insured rose to €35.0 billion at the end of the year. The bulk of the guarantees for foreign investment were granted for investment in Russia – €1.2 billion. Russia clearly leads the field here – well ahead of China and India.

### Shaping international business relations responsibly

232. The Federal Government advocates responsible corporate governance in Germany and abroad and calls on companies to shape internal procedures and management structures accordingly. "Corporate social responsibility" (CSR) refers to the responsibility of companies for their impact on society. This includes social, environmental and economic aspects, as cited for example in internationally recognised reference documents on corporate responsibility, and particularly in the ILO Declaration of Principles concerning Multinational Enterprises and Social Policy, the UN Guiding Principles on Business and Human Rights, the UN Global Compact, ISO 26000 and the OECD Guidelines for Multinational Enterprises.

233. The recommendations of the OECD Guidelines for Multinational Enterprises are addressed to every company

operating internationally in or from a country participating in the OECD Guidelines. With a view to their implementation, the governments of the participating countries are required to set up a National Contact Point. This office is tasked with publicising the Guidelines, providing information about their content and promoting compliance with the Guidelines. Also, in the case of allegations of violations of the Guidelines, the National Contact Points offer to hold mediation procedures to bring about agreement between the parties regarding observation of the Guidelines. The final declaration of the G7 Summit at Elmau stressed the significance of the National Contact Points in terms of strengthening responsibility for global supply chains (cf. Box 7). The work of the contact points is to be reviewed and improved via peer reviews and peer learnings. The Federal Government supports this.

#### Box 6: Investment protection in the Transatlantic Trade and Investment Partnership (TTIP)

In the context of the comprehensive partnership agreement, negotiations are focusing not least on provisions on investment protection and the resolution of investment disputes. The European Union, the EU Member States and the U.S. thus have the opportunity to act as pioneers for a modern approach to investment protection which other countries can follow.

Over the last few months, the European Commission has worked with the EU Member States and the European Parliament to draft a proposal for reformed investment protection. It was sent to the U.S. in November 2015 and provides the basis for further negotiations with the U.S. The proposal for modern investment protection addresses public concerns and takes up key German interests and demands. It provides for substantive and procedural reforms, moving away from the existing investor-state dispute settlement procedures:

- Preserving the right to regulate: the EU proposal provides for a binding rule according to which laws and other state measures that are necessary in the general public interest must not be undermined with reference to investment protection provisions. This also applies to state measures for the promotion of culture.
- Investment court with permanent judges: claims submitted by investors shall in future be decided by an investment court consisting of publicly appointed judges. These shall be designated by the parties to the agreement, i.e. by the European Union, its Member States, and the United States.
- Transparent proceedings: in future, written submissions shall be published, and hearings shall be open to the public. Directly affected third parties can participate in the proceedings.
- Appellate body: in addition, the proposal provides for a genuine appeal mechanism with publicly appointed judges, who also take transparent decisions.

The Federal Government will continue to advocate these points in the course of future negotiations. A decision on the inclusion of this field in the TTIP agreement should – in line with the provisions of the negotiating mandate – be taken once the outcome of the negotiations has been presented and evaluated by the Member States.

234. In future, the fulfilment of corporate social responsibility (CSR) by companies is to become more transparent. At European level, the amendment of the Accounting Directive has broadened reporting requirements for certain large enterprises to include non-financial information like environmental, social and employee issues. The amended directive will be transposed into national law in an SME-friendly way by the end of 2016.

235. German membership of the new Asian Infrastructure Investment Bank (AIIB) also reflects the continuation of the Federal Government's successful commitment to international development and financial institutions. Here, the Federal Government has succeeded in getting high environmental, social and governance standards accepted in the negotiations on the founding of the AIIB and to make it possible for German firms and banks to participate in AIIB projects on the basis of modern procurement rules.

236. Further to this, the European Commission has called on all Member States to press ahead with the implementation of the UN Guiding Principles on Business and Human Rights (the "Ruggie Principles") via the compilation of national action plans. Since October 2014, the Federal Government has been drawing up a National Action Plan to implement the Guiding Principles on Business and Human Rights, in a dialogue with the business community, trade unions and civil society. This also covers the application of the Guiding Principles to value and supply chains. The action plan is to be adopted during this parliament.

237. Further to this, the European Commission has presented a proposal for a Regulation on "conflict minerals" which aims to foster a responsible supply of raw materials for European companies. In particular, the Regulation is to prevent or restrict the financing of armed conflicts in conflict and high-risk areas by revenues from the sale of tin, tantalum, tungsten, their ores and gold. The Federal Government supports this objective. It believes that binding rules are appropriate as long as they are proportionate and do not cause any unnecessary red tape. Accompanying measures are envisaged to help small and medium-sized enterprises with the implementation of the Regulation.

#### **A high level of transparency and effective controls on exports of military equipment**

238. Restricting and controlling the international arms trade makes an important contribution towards preventive and cooperative security policy. The Federal Government

is boosting transparency in the sensitive area of military equipment exports by providing rapid and comprehensive information about licensed exports. For the second time now, the Federal Government published the Report on Military Equipment Exports about the preceding year as early as June. It presented the interim report on the export licences issued in the first half of 2015 in October 2015.

239. The Federal Government is sticking to its strict rules governing the export of military equipment. It has further tightened the rules on small arms exports. Firstly, the Federal Government adopted the Small Arms Principles in March 2015, which set particularly high standards for the export of small arms and light weapons. Secondly, it decided in July 2015 to introduce post-shipment controls. The controls are intended – initially in the form of pilot controls – to verify whether the weapons supplied are still in the country of destination and in the possession of the end-user cited in the end-use statement.

#### **Economic cooperation and development – together with the business community**

240. The "2030 Agenda for Sustainable Development" of the United Nations is the world's central point of reference for sustainable development from 2016. According to this agenda, sustainability is to become a fundamental principle of all decisions and all societal action – in both industrial and developing countries. The implementation of the agenda requires intensive cooperation between all groups of society. Together with the business community and other stakeholders, the Federal Government is pursuing the goal of economically, environmentally and socially sustainable development in Germany itself and in the partner countries (cf. Item (249)).

The Partnership for Sustainable Textiles is an example of a multi-stakeholder process to improve the minimum environmental, social and human rights standards in the value chains of the textiles industry, with more than 170 members from commerce, civil society, trade unions and government. Another example is the "Sustainable Cocoa Forum" in which the Federal Government works with representatives of civil society, the food trade and the confectionery industry to improve the living standards of the farmers and to promote sustainable production.

241. The least developed countries lack access to development-promoting technologies. The Federal Government has committed itself to supporting developing countries

with regard to access to modern technologies, not least so that they can take advantage of the opportunities of digitalisation. To this end, it established a strategic partnership with business for a “digital Africa” in May 2015. Together with German (and European) firms, development policy is seeking innovative ways to make even more use of investment and expertise from the business sector for the development of digital solutions for development policy goals.

## I. Economic growth and quality of life

242. Economic growth is an essential foundation of prosperity in Germany. It generates rising incomes from work and more secure jobs, and can create greater scope for the public sector to act. Strengthening economic growth is therefore a major goal of the Federal Government's economic and fiscal policy.

The central indicator for the measurement of economic growth is the gross domestic product. There has been a broad debate that the gross domestic product – viewed per

### Box 7: Results of the German G7 Presidency

The motto of the German Presidency was “Think Ahead. Act Together”. The summit of the heads of state and government took place at Schloss Elmau on 7-8 June 2015. The talks focused on joint efforts for a values-based and rules-based economic system and a values-based foreign policy.

For example, the G7 agreed to continue its efforts towards more resilient and inclusive growth, closing gaps in financial market regulation, and cooperating more intensively on international tax issues. It committed to the multilateral trading system and the WTO, whilst also stressing the importance of regional trade agreements, and particularly TTIP, for growth, jobs and prosperity.

Also, the G7 adopted specific measures to strengthen responsibility in global supply chains and to support the implementation of existing labour, social and environmental standards. In particular, the intentions include better information for consumers and companies purchasing goods and services, advice and financial support for developing countries, the establishment of a Vision Zero Fund, the strengthening of remedy mechanisms like complaints about alleged violations of the OECD Guidelines for Multinational Enterprises, increased support for small and medium-sized enterprises in the development of a common understanding of due diligence and responsible supply chain management, and the promotion of multi-stakeholder initiatives, particularly in the textiles sector.

In the field of foreign and security policy, the G7 urged respect for global order, human rights, sovereignty and territorial integrity. The heads of state and government have called for support for states affected by the fight against terrorism. Also, the G7 has committed to nuclear safety.

The G7 aims to liberate 500 million people in developing countries from hunger and malnutrition by 2030, and to ensure that one-third more girls and women receive vocational training than in the past. These aims underline the G7's commitment to the “2030 Agenda for Sustainable Development” of the United Nations.

With a view to mitigating climate change, the G7 has called for a limit to global warming to less than 2 degrees Celsius compared with the pre-industrialisation level, the decarbonisation of the global economy in the course of the century, and a reduction in greenhouse gas emissions by 2050 by a value towards the upper end of the 40-70% target range compared with 2010. Further to this, it has adopted ambitious decisions on financing climate change mitigation. In this way, the heads of state and government provided an important signal for the international climate talks in Paris in 2015. Also, measures were decided on to promote resource efficiency.

In addition, Germany has set further priorities with its G7 partners in the fields of health, women and the environment.

se – is of limited meaning in terms of social progress and quality of life. Both the Stiglitz-Sen-Fitoussi Commission (2010) and the German Council of Economic Experts in its joint study with the Conseil d'Analyse Economique (CAE) entitled “Monitoring economic performance, quality of life and sustainability: a comprehensive system of indicators” (2010) have studied this in detail.

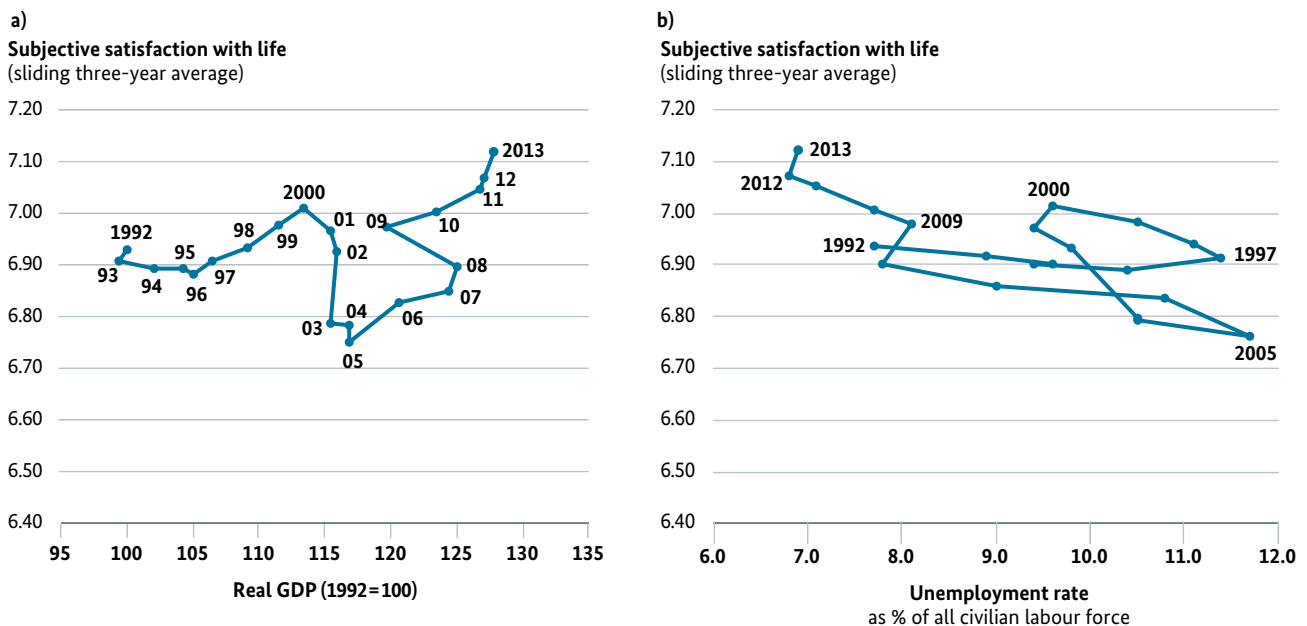
On the basis of this and other studies, the Study Commission set up by the Bundestag in autumn 2010 entitled “Growth, prosperity, quality of life – ways to sustainable economic activity and social progress in the Social Market Economy” (2013) showed specific paths towards more comprehensive measurement of well-being (cf. also 2015 Annual Economic Report Items 242 ff.). In its final report, it called on the Federal Government to develop a new concept for reporting on well-being.

### Focusing more on the quality of economic growth

243. The debate on quality of life in Germany is focusing thinking about economic and fiscal issues more on the quality of economic growth. Whether and to what extent economic growth contributes to greater quality of life in society depends on numerous factors, such as the quality of jobs, the hours worked, or the level of air pollution.

Questions of the distribution of wealth, such as the level of income and asset inequality or the distribution of paid work, can also influence quality of life. The degree of fiscal sustainability or the scope of investment in education impact on the future and lay the foundations for future quality of life. The level of greenhouse gas emissions affects the future quality of life, not only at national, but also at international level. An objective and unambiguous measurement of the quality of life in society is not possible, since the various aspects of quality of life always have to be weighted, and such a weighting always implies specific values as standards. An alternative way to gain an impression of how quality of life develops in a country is to use subjective survey indicators. This can involve people being asked for example to assess how satisfied they are, generally, with their life, on a scale of 0-10. Diagram 9 a) reflects by way of example the relationship between the development in real gross domestic product and this sort of indicator of average subjective life satisfaction for Germany. The curve is shaped like a “u” between 2000 and 2013. In other words, despite a significant increase in economic output, the subjective satisfaction with life generally declined up until the mid-2000s. Apparently, the increase in gross domestic product in this period was not sufficient to improve the subjective quality of life. The trend only turned clearly positive from 2004/2005, and this remained the case through the deep recession of 2009. The positive effect of economic growth

**Diagram 9: The interrelationship between economic growth, unemployment and satisfaction with life**



Source: In-house calculations on basis of the Socio-economic Panel, the unemployment statistics of the Federal Employment Agency and the Federal Statistical Office (national accounts).

before 2004 was overshadowed in particular by the ongoing rise in unemployment. At the same time, the higher employment intensity of economic growth after 2005 is a key explanation for the positive development in satisfaction with life in that period. This is suggested not only by the relevant literature but also the close negative correlation between the unemployment rate and subjective satisfaction with life (cf. Diagram 9 b).

244. A central challenge for economic policy is to resolve potential conflicts between the level and the quality of economic growth in the interest of the highest possible – albeit not objectively measurable – quality of life. At the same time, economic policy also aims to defuse potential conflicts of interest – e.g. between the development of income (growth) and its distribution. In order to support this sort of balanced economic policy, indicators and empirical analyses can direct attention not only to the traditional measurement of prosperity but also to aspects of quality of economic growth.

### Increasing the quality of economic growth, taking labour market policy as an example

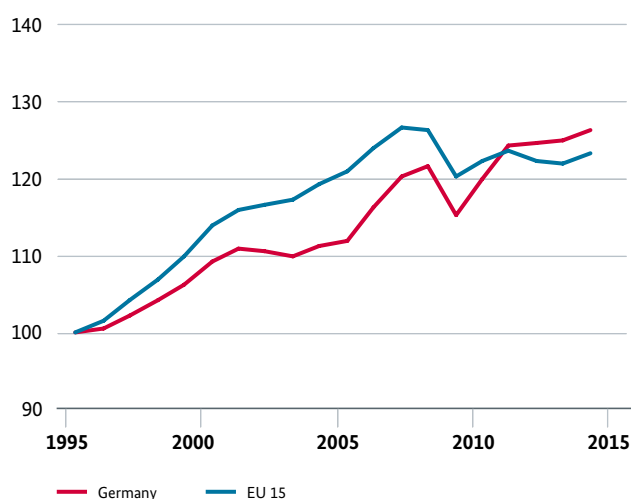
245. The interrelationship sketched out about between quality of life and the labour market situation was also taken up by the Study Commission, which identified the

employment rate as a central indicator of social inclusion and thus as a facet of quality of life. The development of this rate over the last 20 years reflects the far-reaching changes which took place on the German labour market in the 2000s. Between 1995 and 2004, the employment rate stagnated despite a rise in economic output of more than 10 percentage points. Since 2005, in contrast, Germany has recorded a massive rise in employment which, even in the course of the economic crisis of 2009, was only briefly interrupted (cf. Diagram 10 a) and b)). The employment intensity of economic growth has thus increased significantly. Not least, the far-reaching reforms of the Agenda 2010 made a substantial contribution towards this. This development and the opposite movement of unemployment figures are likely to have made a considerable contribution towards the development in satisfaction illustrated in Diagram 9 a) and b). The clear decline in unemployment figures after 2005 to below three million is thus also an expression of a higher quality of economic growth.

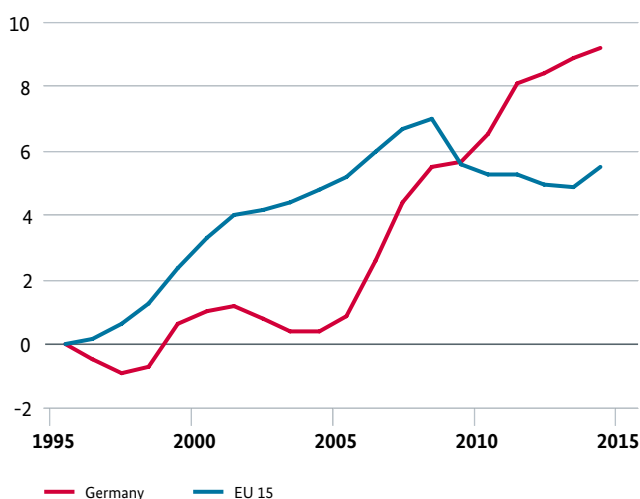
246. In the course of the ongoing rise in employment, the economic policies governing the labour market have changed markedly. As well as endeavouring to attain a further increase in labour force participation (cf. Items (143) ff.), the Federal Government is working to improve the quality of jobs. In order to protect workers in Germany from inappropriately low wages, the Federal Government has introduced a nation-wide gross minimum wage of

**Diagram 10: The development of economic output and employment**

**a) Real per-capita GDP (1995=100)**



**b) Change in employment rate of 15-64-year-olds in percentage points since 1995**



Source: Eurostat; in-house calculations.

€8.50 and has thus, says the German Council of Economic Experts, implemented the biggest reform of labour-market policy since the Hartz IV reforms (cf. GCEE Item 533). It is not possible to make more precise statements about the impact on employment and economic output at present (cf. GCEE Item 534). However, it can already be said that the minimum wage is contributing directly to a reduction in wage inequality: in eastern Germany in particular, the minimum wage has resulted in clear increases in income for the lowest earners. Initial indicators also suggest that some minijobs may have been converted into jobs subject to social insurance (cf. also GCEE Item 537). The new rules planned by the Federal Government on temporary agency workers and contracts for work and services (cf. Item (157)) aim not least to improve the quality of jobs and thus of life by preventing the abusive use of contracts to the detriment of employees. Here it is necessary to ensure – as with the minimum wage – that the new rules do not pose a risk to the investment climate and employment situation in Germany.

### Focusing economic policy more on quality of life

247. When it took up office, the Federal Government agreed to conduct a joint review of the Stability and Growth Act with the German Council of Economic Experts. The Stability and Growth Act of 1967 sets out a “magic square” of general goals for economic policy at all levels of government and forms a framework for short-term stability-oriented action. The review of the Stability and Growth Act took place last year. Here, the Federal Government and the German Council of Economic Experts (cf. GCEE Item 576) have concluded that the Act still provides an effective framework for short-term stability-oriented action and rapid coordination processes at all levels of government. This is also true in view of the fact that, almost 50 years after it entered into force, the practical application of the Act has moved away from the original approach of finely tuned global cyclical steering. It also provides the basis for economic and fiscal policy projections and reports which can be used to make undesirable economic developments visible at an early stage and to provide policymakers with orientation for adaptation of their economic and fiscal policies. The Federal Government will not therefore be reforming the Stability and Growth Act.

248. There was also a consensus that, in view of its orientation to short-term cyclical stabilisation, the Act does not provide an appropriate framework to reflect goals and instruments of what is inevitably a longer-term holistic

consideration of well-being. However, like the German Council of Economic Experts, the Federal Government believes that a public debate about questions of social and environmental sustainability, including in terms of economic policy, is relevant. This will necessitate a detailed academic analysis of the mechanisms of potential instruments and conflicting interests. In its latest Annual Report, the German Council of Economic Experts proposes the following process: a system of indicators oriented to the holistic understanding of well-being could be subjected to academic analysis once in each parliament by an independent and expert body. The Council believes that it is quite possible that such a report on indicators could become an instrument of discourse which enjoys wide public acceptance (cf. GCEE Items 574 ff.).

249. The national sustainability strategy aims to implement sustainable development as a fundamental goal and benchmark for the policies of the Federal Government and is also a major framework for Germany's implementation of the 2030 Sustainable Development Agenda. Before the next progress report by the Federal Government in autumn 2016, its goals and indicators are to be developed further in the light of the ongoing monitoring of targets by the Federal Statistical Office and taking the structure of the targets and the ambitions of the 2030 Agenda into account. The Federal Government aims to increasingly decouple the use of natural resources from economic development, to keep improving efficiency, and to further reduce the use of natural resources. Germany wants to become one of the world's most energy-efficient and environmentally friendly economies.

250. In the government strategy entitled “Living well in Germany – what's important to us”, the Federal Government has embarked on the debate about economic growth and quality of life, as well as concepts to measure well-being. By the end of the first half of 2016, it will present a report which contains an up-to-date system of indicators and reporting on quality of life in Germany and which is to provide – alongside the goals and indicators of the national sustainability strategy – orientation for the future policies of the Federal Government.

## II. The Federal Government's projection

### Overview: German economy on solid growth trajectory

251. The German economy is in a fundamentally good state. Macroeconomic capacity utilisation is at a normal level. The labour market situation remains positive: for the first time in the history of the Federal Republic, the number of people in employment rose above 43 million in annualised terms, and the number of unemployed was at the lowest level since 1991. Cyclical stimuli are currently deriving chiefly from private and public spending on consumption and from investment in house-building. The high influx of refugees also contributes to this.

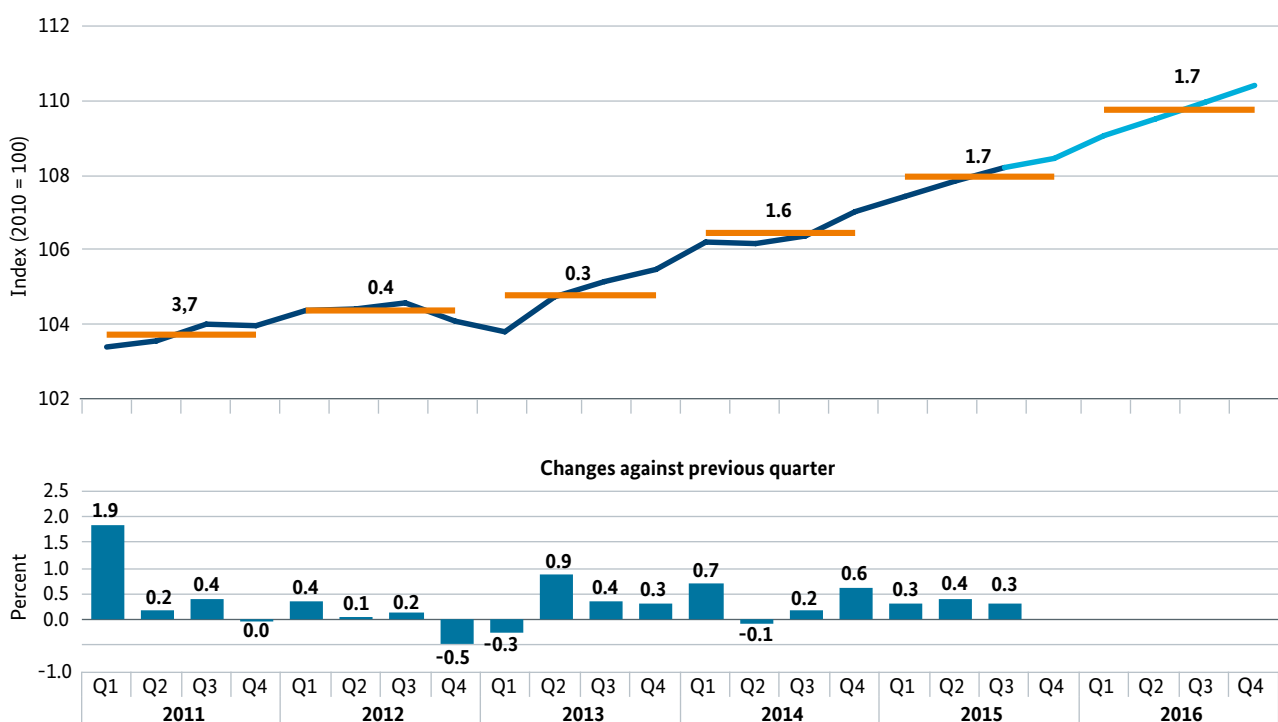
The upturn in the German economy softened somewhat in the second half of 2015. The slower growth in the emerging economies meant less dynamic exports and corporate investment. However, industrial demand picked up again towards the end of the year. At the same time, business sentiment improved. The labour market continued to develop favourably right up to the end of the year.

For 2016, the Federal Government expects an annual average increase in gross domestic product of 1.7% (cf. Overview 3). Even though this growth rate is similar to that of last year, the cyclical dynamism, measured in terms of growth from final quarter to final quarter, is 1.8% this year, or 0.5 percentage points higher than last year (cf. Overview 4). Adjusted for working days, gross domestic product will grow by 1.6% this year, or 0.1 percentage points more than last year.

The Federal Government's annual projection is somewhat higher than the Council's November 2015 forecast, which predicts growth of 1.6% for 2016 (cf. GCEE Annual Report Items 185 ff.). As in the Council's forecast, the main stimulus for demand in the Federal Government's projection derives from consumption and investment in housing. The Council and the Federal Government also believe that the high influx of refugees will trigger short-term stimuli.

The continuing expansion of employment, together with the appreciable rises in income, forms the foundation of the ongoing dynamism in Germany's domestic econ-

**Diagram 11: GDP change in Germany (price-adjusted)**



Blue line: Quarter-to-quarter movement, in pre-year prices, adjusted for seasonal and calendar-day factors  
 Orange lines: Annual average in pre-year prices; year-on-year change in percent  
 Blue columns: Percentage change, adjusted for seasonal and calendar-day factors

Source: Federal Statistical Office for the development of GDP up to Q3 2015; in-house calculations.

## Overview 3: Key figures of the 2016 annual projection

Macroeconomic trends in the Federal Republic of Germany <sup>1</sup>	2014	2015	Annual projection 2016
Percentage change on preceding year			
<b>Gross domestic product (GDP), output approach</b>			
GDP (real)	1.6	1.7	1.7
Total employment	0.9	0.8	0.9
GDP per employee	0.7	0.9	0.8
GDP per hour worked	0.4	0.5	0.6
<i>for information:</i>			
Unemployment rate in % (ESA concept) <sup>2</sup>	4.7	4.3	4.5
Unemployment rate in % (Federal Employment Agency definition) <sup>2</sup>	6.7	6.4	6.4
<b>GDP by expenditure (at current prices)</b>			
Consumption expenditure			
Private consumption expenditure	1.9	2.5	3.0
Public consumption expenditure	4.1	4.5	5.4
Gross fixed capital formation	5.0	3.1	3.9
Change in stocks (€ billion)	-22.0	-35.2	-36.8
Domestic demand	2.6	2.6	3.7
Foreign balance of goods and services (€ billion)	196.4	236.9	238.1
Foreign balance of goods and services (as % of GDP) <sup>7</sup>	6.7	7.8	7.6
<b>Gross Domestic Product (nominal)</b>	<b>3.4</b>	<b>3.8</b>	<b>3.4</b>
<b>GDP by expenditure (real)</b>			
Consumption expenditure			
Private consumption expenditure	0.9	1.9	1.9
Public consumption expenditure	1.7	2.8	3.5
Gross fixed capital formation	3.5	1.7	2.3
Machinery and equipment	4.5	3.6	2.2
Construction	2.9	0.2	2.3
Other plant and equipment	3.1	2.7	2.5
Stockbuilding (GDP growth contribution) <sup>3</sup>	-0.3	-0.4	0.0
Domestic demand	1.3	1.6	2.3
Exports	4.0	5.4	3.2
Imports	3.7	5.7	4.8
External balance of goods and services (contribution to GDP growth) <sup>3</sup>	0.4	0.2	-0.4
<b>Gross Domestic Product (volume)</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>
<b>Prices (2010 = 100)</b>			
Private consumption expenditure <sup>4</sup>	1.0	0.6	1.1
Domestic demand	1.2	1.0	1.4
Gross Domestic Product <sup>5</sup>	1.7	2.1	1.7
<b>Distribution of gross national income</b>			
<i>(resident concept)</i>			
Compensation of employees	3.8	3.9	3.6
Income from self-employment and property	3.8	4.6	3.8
National income	3.8	4.1	3.7
Gross national income	3.5	3.7	3.4
<i>for information (resident concept):</i>			
Employees	1.1	1.1	1.1
Total gross wages and salaries	3.9	4.0	3.7
Total gross wages and salaries per employee	2.7	2.9	2.6
Disposable income of private households	2.3	2.8	2.9
Savings ratio in % <sup>6</sup>	9.5	9.7	9.6

1 Up to 2015 figures from the Federal Statistical Office; National Accounts Status: January 2016

2 In relation to the total labour force.

3 Absolute change (stocks/external balance) in per cent of pre-year GDP (=contribution to change in GDP).

4 Consumer price index, percentage change on preceding year: 2015: 0,3%; 2016: 0,9%.

5 Unit labour costs, percentage change on preceding year: 2015: 1,8%; 2016: 1,6%.

6 Saving in per cent of private households' disposable income including occupational pension claims.

7 Current account balance: 2015: +8.1%; 2016: +7.8%.

omy. As in previous years, the additional employment will chiefly be created in the services sectors. The large influx of refugees is unlikely – not least due to the length of procedures – to have much of an impact on the labour market in the first few months of the year. The Federal Government assumes in its projection that the parties to collective bargaining will agree macroeconomically reasonable wage increases. In conjunction with the moderate rise in the price level, they will result in a tangible rise in real wages, although this will be somewhat smaller than last year in view of the slowly rising price level. The regular adjustment in pensions, the increase in child benefit and the transfers to the refugees in Germany will significantly increase monetary welfare benefits this year. Together with the reductions in wage and income tax, this boosts disposable income. There will be clear increases in consumption by private households and in investment in housing construction. The influx of refugees will result in a renewed dynamic increase in public-sector consumption.

Recovery in the eurozone is consolidating, but the external economic environment remains fragile due to considerable geopolitical tensions and a slowing of growth in some emerging economies. In line with the forecasts of international organisations, the projection for 2016 assumes a slight acceleration in the world economy and world trade. This goes hand in hand with a low external value for the euro against the U.S. dollar, so that a moderate increase in German exports can be expected. As demand picks up speed, the companies will gradually step up their investment over the course of the year.

The robust growth in overall demand is stimulating imports. This more than offsets the positive stimulus from demand for exports (cf. Overview 5). In view of the clear rise in imports this year, the German current account surplus in terms of gross domestic product will be lower than last year.

Inflationary tensions are not expected. Macroeconomic capacity utilisation will be generally normal. Profits will increase this year, not least due to falling oil prices; the share of wages is likely to decline slightly. Unit wage costs will mark a moderate rise.

252. The 2016 annual projection is based on the following assumptions:

- As a technical assumption, the oil price is derived from the futures prices in the projection period. These are pointing slightly upwards during the course of the year, but as an annual average are more than a third below the average for the preceding year at approximately USD34 per barrel of Brent crude. As further technical assumptions, the exchange rates in the projection period are assumed to be constant at their respective averages of the last six weeks before the production of the projection. The exchange rate for the euro is assumed to be 1.8% lower than last year, at USD1.09. Another technical assumption is that the interest rate for main refinancing transactions of the European Central Bank will remain constant at 0.05% until the end of the projection period.
- A central assumption for the projection is that the financial sector will remain stable and there will be no negative developments in the eurozone or the world

#### Overview 4: Technical details of the GDP growth projection (in percent or percentage points)

	2014	2015	2016
In percent or percentage points			
<b>Annual average GDP rate</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>
Statistical overhang at the end of the previous year <sup>1</sup>	0.5	0.4	0.6
Rate of growth over course of year <sup>2</sup>	1.5	1.3	1.8
Annual average GDP rate, adjusted for working days	1.6	1.5	1.6
Calendar effects <sup>3</sup>	0.0	0.2	0.1

Source: Federal Statistical Office 2016; in-house calculations

- 1 Index level in Q4 of previous year adjusted for seasonal and calendar-day effects in relation to quarterly average of previous year adjusted for calendar-day effects.
- 2 Rate of change over year from Q4 to Q4, adjusted for seasonal and calendar-day effects.
- 3 In percent of GDP.

economy which will cause a significant rise in economic uncertainty.

- All of the economic and fiscal policy measures adopted by the time of the finalisation of the Annual Economic Report have been fed into the projection (cf. Part I).

253. In the view of the Federal Government, and given the assumptions cited above, the underlying course indicated by the annual projection is the most likely development of the German economy. The estimate does of course involve uncertainties. This is particularly true of the development and effects of the influx of refugees. Opportunities for an economic development which is more favourable than anticipated can mainly be found on the domestic side. Stimulation could derive from the planned measures to boost investment in Germany and from a stronger recovery in Europe. Furthermore, the stimuli – not least crude oil prices, the exchange rate and economic policy – could have a stronger impact than assumed. On the other hand, the risks in the external economic environment remain. A worsening of the geopolitical conflicts or a greater slow-down in growth in the emerging economies are some of the main risk factors for the economic development. Also, abrupt and marked fluctuations in the oil price or the exchange rate could influence the cyclical development. The change in interest rate policy in the United States can result in capital flows and thus trigger turbulence on the raw materials, financial and foreign exchange markets.

## The projection in detail

### Fragile global economic environment characterised by opposing developments

254. Last year, the global economy developed more slowly than expected (cf. Box 8). In particular, the dynamism of world trade was disappointing. In the emerging economies, economic growth was even weaker than anticipated. At the turn of 2015/2016, the global economy is characterised by differing monetary policy approaches and low commodity prices. In line with forecasts by international organisations, the Federal Government expects this year to see a slight acceleration for the global economy as a whole, with regions registering different speeds. The 2016 Annual Projection assumes price-adjusted growth of approximately 3½% in both the global economy and world trade.

The opposing developments seen in the recent past in the economic cycles in industrialised and emerging economies have continued. Some of the driving forces for growth in the world economy have shifted towards the industrialised countries. Economic growth in the emerging economies has slowed for five years in succession. The rate of expansion has dropped in China in particular. However, the available information is not suggestive of an abrupt and lasting slump there. The structural change towards a more services-oriented Chinese economy is continuing.

### Overview 5: Contributions towards GDP growth in the projection for 2016

	2014	2015	2016
In percent or percentage points			
<b>Contributions to growth<sup>1</sup></b>			
GDP (growth) = (1)+(2)+(3)+(4)	1.6	1.7	1.7
<b>(1) Private-sector consumption</b>	<b>0.5</b>	<b>1.0</b>	<b>1.0</b>
<b>(2) Public-sector consumption</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>
<b>(3) Gross investment</b>	<b>0.4</b>	<b>-0.1</b>	<b>0.4</b>
(3a) Changes in inventories	-0.3	-0.4	0.0
(3b) Gross fixed investment	0.7	0.3	0.5
Investment in construction	0.3	0.0	0.2
Equipment	0.3	0.2	0.1
<b>Domestic demand = (1)+(2)+(3)</b>	<b>1.2</b>	<b>1.5</b>	<b>2.1</b>
Export of goods and services	1.8	2.5	1.5
Import of goods and services	-1.5	-2.2	-1.9
<b>(4) Net foreign demand</b>	<b>0.4</b>	<b>0.2</b>	<b>-0.4</b>

Source: Federal Statistical Office 2016; in-house calculations

1 Deviations in totals possible due to rounding.

China is likely to achieve approximately 6¼% growth in price-adjusted GDP in 2016. The close economic ties mean that the slowdown in Chinese growth will impact on other emerging economies. The weaker demand will have a further dampening effect on crude oil prices. The prices have already fallen sharply since 2014, and this is affecting countries like Brazil and Russia which export raw materials. Furthermore, the prospects of the Russian economy continue to be affected by ongoing trade sanctions, massive capital

outflows, a depreciation of the rouble, high inflation and the concomitant loss of confidence. The prospects for the emerging economies in Latin America are again impacted by the low commodity prices in this year, but are better than last year. In the Asia-Pacific emerging and developing economies, growth will again be well below the very high growth rates seen before the crisis in 2008/2009. In India, economic dynamism is likely to remain above average. As a consequence of the increasing monetary policy divergence,

### Box 8: Review of the 2015 Annual Projection

According to the first provisional annual figures from the Federal Statistical Office, price-adjusted gross domestic product expanded by 1.7% in 2015. The figure was thus somewhat higher than the 1.5% forecast in the 2015 annual projection (cf. Overview 6). Domestic demand in Germany, and private-sector and public-sector consumption in particular, proved more dynamic than anticipated a year ago. In terms of the range of forecasts (between 1.0% and 1.7%) by research institutes, the German Council of Economic Experts and international organisations at the beginning of 2015, the annual projection was towards the upper end of the spectrum. At the time, the Council expected gross domestic product to expand by 1.3%.

The arithmetic contribution to growth by foreign trade was 0.2%, according to provisional figures from the Federal Statistical Office, in line with the 2015 annual projection. However, the price-adjusted exports rose by 5.4% – despite the rather difficult external economic environment and the turbulence relating to Greece – more strongly than expected in the annual projection (+3.6%). The weak exchange rate of the euro against the U.S. dollar probably contributed to this. Imports also rose more strongly, at 5.7%, than expected a year ago (+4.1%). The high level of dynamism is largely the result of strong domestic demand and the high import content of exports.

Gross fixed capital formation rose somewhat faster than expected, at 1.7%. Growth in investment in equipment was much higher than assumed at the time: +3.6% rather than +1.9%. However, this is mainly due to a clear upwards revision of 2014 figures. The expansion of investment in construction was well below expectations: +0.2% rather than +2.2%. This was primarily due to the weak performance of non-residential construction.

Consumer spending expanded rather more strongly than expected, at 1.9% rather than 1.6%. Reasons for this outcome are the weaker increase in consumer prices and a better development on the labour market than assumed in the annual projection. The rise in people in gainful activity was 329,000, or almost twice as much as projected. Immigration of workers from the European Union was stronger, and the negative influence of the minimum wage less, than assumed. Registered unemployment dropped faster than expected (104,000 rather than 40,000 people).

The growth both in gross wages and salaries per employee and in disposable income of private households was roughly in line with the annual projection.

The development of the price level in 2015 was very much affected by the continuing fall in crude oil prices. For this reason, the development of inflation remained well below what was itself an expectation of a low rise in consumer prices (+0.3% rather than +0.8%).

Public-sector consumption expanded much more strongly than assumed in the budgetary planning a year ago. Here, the unexpectedly high numbers of refugees played a role, necessitating increased welfare benefits in kind and input by the state. The overall public-sector financial balance registered a surplus of 0.5% of nominal gross domestic product, far better than expected a year ago.

with high levels of foreign debt in some cases, the emerging economies are again likely to be susceptible to exchange rate movements and capital flows.

In contrast to the emerging economies, the industrialised countries developed strongly, as was expected. A factor behind this was the upswing in the United States, and this is likely to continue even given the change in interest rate policy. This means that the United States will continue to assume the role of the global driving force for growth despite the sharp appreciation of the U.S. dollar. Unemployment has dropped significantly. A contributory factor here has been the fall in the labour force participation rate since 2008, which has reduced the supply of labour. The public-sector debt of the United States remains high.

The rather moderate rate of growth in Japan will roughly be maintained this year. There are no signs at present of a dynamic, self-sustaining upswing. Consumer spending has not yet recovered from the collapse following the rise in consumption taxes in mid-2014. The public-sector debt remains at an extremely high level.

The overall economic situation in the eurozone improved last year. The moderate growth which set in in 2014 after two years of shrinkage continued – largely unaffected by the renewed exacerbation of the Greece crisis in mid-2015. The recovery in the eurozone as a whole is likely to firm up and accelerate slightly this year. Overall, gross domestic product is expected to increase by 1¾ %. Here, the economic growth in the various Member States will be more homogeneous than during the European debt crisis. Some of the Member States which were particularly affected at the time, like Spain and Ireland, are actually registering an extremely dynamic development. In contrast, France and Italy are expected to have rather moderate growth prospects, but these are still expected to be better than last year. In many countries, however, the situation on the labour market remains tense. Low crude oil prices, an expansionary monetary policy and a related low interest rate and a low exchange rate against the U.S. dollar will encourage the recovery in the eurozone this year.

Economic growth in the European Union is likely to expand at a similar rate to last year. The United Kingdom and important trading partners in central and eastern Europe are expected to see a continuation of the upswing. It is assumed that the United Kingdom will remain a member of the European Union.

### Robust foreign trade in a difficult environment

255. Despite the difficult external economic environment, the German economy saw sharp increases in its exports and global market shares in 2015. On the other hand, world trade saw a relatively weak development against the background of the slower economic activity in China and other emerging economies. German exports to the emerging economies also suffered from this. But it was more than offset by the increasing exports to industrialised countries. The low euro exchange rate against the U.S. dollar boosted exports to, for example, the United States. German exports also benefited from this indirectly via third-market effects.

In the manufacturing sector, foreign markets recently saw a weaker development, but the orders from abroad and the export expectations were able to recover somewhat at the end of 2015. The eurozone is likely to continue to deliver a positive stimulus for German exports this year. Growth on Germany's sales markets should pick up speed again this year. The low value of the euro against the U.S. dollar is likely to have a slightly positive effect on demand for German exports in 2016. The weak and volatile exports since August 2015 also suggest that caution is required when assessing the future development.

Overall, exports of goods and services are likely to grow comparatively moderately, by 3.2 % in price-adjusted terms in 2016. Due to the dynamic domestic demand, imports will expand more strongly than exports at a price-adjusted rate of 4.8 %.

As a consequence of the low crude oil prices, the development of the import price level will again be weak, after three successive falls. At the same time, the low euro exchange rate creates greater price-setting scope for exporters. This will also improve the terms of trade and will favour domestic incomes.

The positive contribution by exports to the growth of gross domestic product will be more than offset by the imports. Overall, this suggests that foreign trade will make a negative contribution to growth in arithmetic terms in 2016, of -0.4 percentage points. The German current account balance will fall slightly by 0.3 percentage points to 7.8 % in relation to nominal gross domestic product.

### Corporate investment remaining slow

256. Gross investment in plant and equipment expanded hesitantly last year, as expected. Following a strong beginning to the year, the dynamism was weak. As an average for 2016, investment in plant and equipment is likely to expand rather more strongly. As was the case last year, investment in housing will increase significantly. Investment by companies in equipment and buildings is only likely to pick up speed slowly.

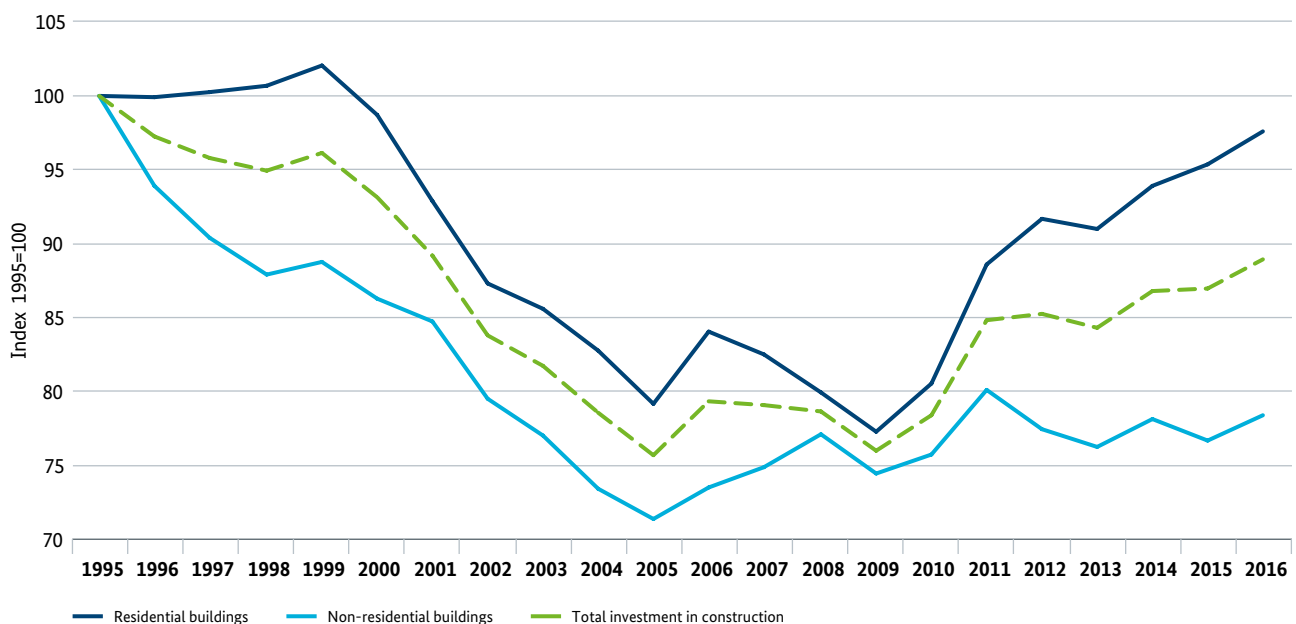
Capacity utilisation in the manufacturing sector is currently only slightly above the long-term average. This means that additional orders can initially be processed using the plant already in place. Furthermore, foreign markets will continue to be developed in the form of local investment. It seems that investment decisions in Germany are still driven primarily by the need to replace existing plant and equipment.

The gradual acceleration in world economic growth this year is likely to boost orders from abroad and necessitate investment in expansion. The continuing favourable possibilities for companies to use third-party and in-house

funding are then likely to feed into a slow rise in the rate of investment in equipment. Investment in equipment is likely to see a rather small increase – compared with previous upswings – at 2.2% in annualised terms. In the second half of 2015, investment in equipment was rather weak, so that the annualised rate of change understates the actual investment dynamism of 2016. Corresponding to this, companies will also only moderately increase their investment in non-residential buildings this year.

In view of low mortgage interest rates and good income and labour market prospects, the environment for private-sector investment in housing remains extremely favourable. Also, real estate has become more attractive as an investment. The number of permits issued to erect residential buildings suggests that there will be appreciable levels of new construction activity. Demand for accommodation is extremely brisk, particularly in conurbations. This is being exacerbated by the current high level of refugee influx. The Federal Government is therefore continuing to use the tried-and-trusted support for energy-efficient construction and retrofitting of buildings and the planned improvement in depreciation rules for new rental housing in areas with tight housing markets to provide incentives

**Diagram 12: Long-term development in construction investment (price-adjusted)**



Source: Federal Statistical Office up to 2015; in-house calculations.

for more investment in house-building. At an annualised rate of 2.3 %, this is likely to pick up speed appreciably this year (cf. Diagram 12).

Additional stimuli are deriving from public-sector investment in construction investment. The Federal Government has introduced measures in its investment strategy to boost investment in Germany (cf. Box 3). Municipalities and Länder will receive further relief of approximately €10 billion up to 2017 in order to create scope for investment. The cost of accommodating and catering for refugees is a national task and is largely borne by the Federal Government. This is likely also to result in additional municipal investment in accommodation. Further to this, the Federal Government will allocate approximately €5 billion for transport infrastructure up to 2017. Overall, there will be a rise of 2.3 % in private and public-sector investment in construction.

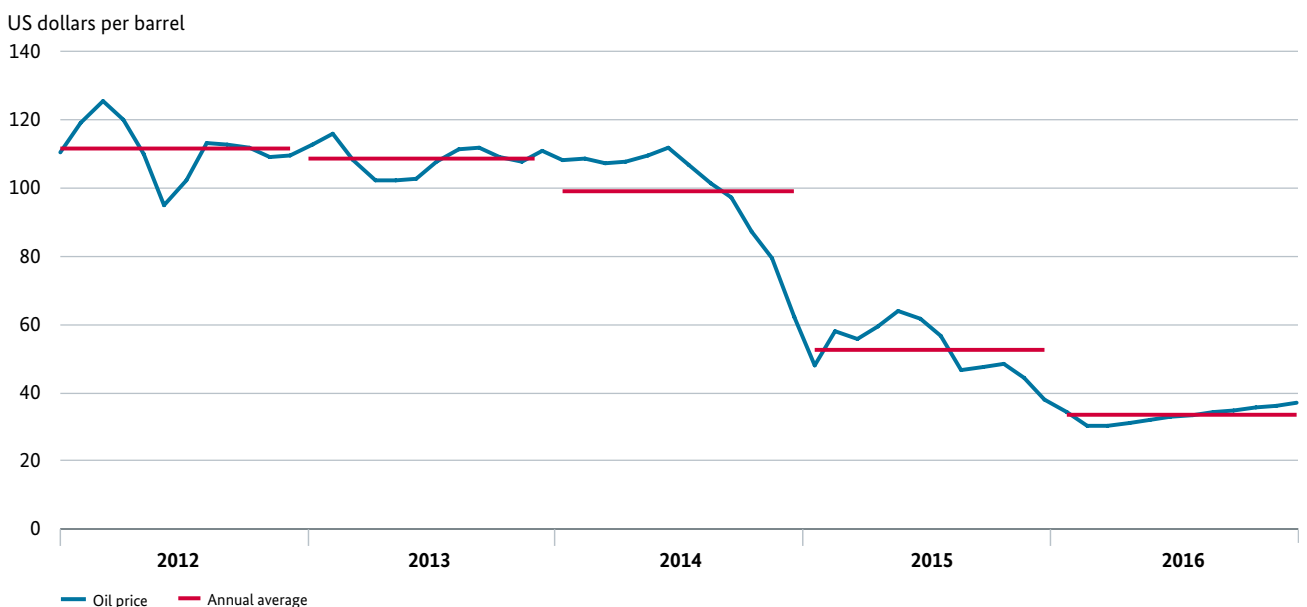
In the projection period, other investment in plant and equipment will increase, as last year, by 2.5 % in price-adjusted terms. Disruptive technologies, and particularly the advancing digitisation, necessitate constant investment in research and development in order to tap this potential for innovation. The Federal Government is addressing this development in its Digital Agenda (cf. Box 1).

All in all, gross fixed capital formation will expand somewhat more strongly this year than last year, at 2.3 %. This means that the rate of investment will rise slightly, by 0.1 percentage points to 20.0 %.

### The labour market as the foundation of growth

257. The robust labour market provides the foundation for the positive macroeconomic development. Germany has one of the lowest unemployment rates in the European Union. Employment has kept rising for ten years. Last year again achieved a new record, at an average 43.0 million people in gainful activity. Employment has particularly expanded in the services sectors. Initial statistics indicate that the minimum wage has so far had a positive impact on the employment structure. Following the introduction of the nation-wide minimum wage, the number of minijobs has fallen, but this drop has been more than offset by the rise in employment subject to social security contributions. It seems likely that some marginal employment has been converted into jobs subject to social security contributions. The sharp rise in the number of incoming refugees since the second half of 2015 is only likely to have a gradual effect on the labour market.

**Diagram 13: Development of oil prices**



Brent crude prices including futures; as of 13 January 2016

Source: Macrobond; in-house calculations.

The outlook for the labour market remains good. The number of vacancies and the willingness of companies to recruit are at a high level. For this reason, this number of people in gainful activity will rise by a further 380,000 people as an annual average for 2016. In particular, the number of persons in employment subject to compulsory social insurance payments will rise sharply. This year will see another record, at around 43.4 million people in employment.

Nevertheless, registered unemployment will rise slightly in 2016 due to the high level of refugee influx. Last year, the number of registered unemployed dropped by 104,000, but this year there will be a slight increase of 30,000. The Federal Government expects the unemployment rate to remain unchanged at 6.4% this year. The German unemployment rate as measured by the internationally comparable concept of the International Labour Organization (ILO) will rise slightly to 4.5%. The Federal Government's view of the future development on the labour market is largely in line with the Council's November forecast (cf. GCEE Annual Report Items 238 ff.).

The anticipated rise in the number of unemployed chiefly reflects the current influx of refugees. Integration into the labour market will take time due to certain impediments like language barriers or training needs. However, the Federal Government has already adopted numerous measures to reduce the barriers in the way of a rapid integration of refugees into the labour market (cf. Box 2).

### Price level picking up

258. The rise in the level of consumer prices was very low last year, at 0.3%. Disregarding the volatile components of energy and foodstuffs, the core inflation rate stood at 1.2%. The main factor determining the development in consumer prices was the decline in crude oil prices. Despite the depreciation of the euro, the annual average crude oil price in 2015 was 36.7% below the previous year's average. Unchecked oil production by the OPEC countries and the expansion of the oil supply by the United States in the wake of the fracking boom of recent years contrasts with restrained demand for crude oil due to the weak dynamism in the emerging economies. The dampening effect of oil prices on the development of the price level is likely to continue in 2016. The futures prices suggest an annual average oil price that is 34.8% lower than in the preceding year (cf. Diagram 13). The low energy price is resulting a weak rise in the price level of energy-intensive goods. The rates of inflation of less energy-intensive components of

the consumer price index, in contrast, are likely to accelerate in the projection period. Due to the general wage rises, the prices for services are likely to increase slightly faster.

In view of the price dynamism in the domestic economy, there are no factors in sight on either the demand or the cost side which pose a risk to stability. The determinants of the development of the price level in the domestic economy include unit wage costs and profits, i.e. the economic variables of the cost of labour and capital, both of which will expand at a moderate pace. This is in line with the expectation that utilisation of the macroeconomic production capacity will be roughly normal.

Overall, consumer prices will rise faster this year, at 0.9%, than in 2015. The core inflation rate stands at 1.5% and is a little higher than the long-term average. The gross domestic product deflator, as a measure of inflation across the economy, is likely to increase more strongly than the consumer price level, by 1.7%, as a result of falling import prices.

### Consumer spending – driving growth

259. The environment for consumer spending is again favourable this year. Disposable income will increase substantially and the rise in the price level will generally be restrained, meaning that the real incomes of private households will continue to point clearly upwards. Also, the financing conditions remain very advantageous. Consumer sentiment, and particularly the propensity to purchase, remains at a high level.

Last year, the parties to collective bargaining agreed on clear wage rises, and these cover this year too. In view of the scarcity on the labour market, 2016 is again likely to see considerable rises in collective wages. All in all, collective wages are likely to expand at a similar rate to last year.

The introduction of the nation-wide minimum wage means that gross wages and salaries per employee (effective earnings) rose considerably more strongly than collective wages (positive wage drift). This effect will not be felt in 2016, meaning that effective wages will increase at roughly the same rate as collectively agreed wages, at 2.6%.

Net wages and salaries per employee will rise slightly more slowly (2.5%) this year than gross wages and salaries. The main negative factors will be the rising contribution assessment ceilings for social insurance funds, the increase in the

supplementary premiums by the statutory health insurance funds and the progressive income tax schedule. These contrast with relief totalling almost €4 billion from the increase in the basic personal allowance and child allowances. Net wages and salaries now account for nearly 48 % of disposable income, and are the largest component of it.

Monetary welfare benefits will rise appreciably this year. Firstly, there will be a marked rise in pensions when the regular adjustment takes place in the middle of the year. Secondly, monetary welfare benefits from territorial authorities for refugees will increase considerably. In total, monetary welfare benefits paid out by territorial authorities and social insurance funds will expand by 5.1 %. Their share of disposable income will rise this year by 0.5 percentage points to 24.9 %.

The share of disposable income accounted for by entrepreneurial and property income of private households will fall this year. It will drop by 0.8 percentage points to 27.2 %. Profits of the self-employed are likely to increase slightly in view of the solid macroeconomic development; however, the extremely low level of interest rates is continuing to affect income from assets.

Disposable income, which is the main factor influencing consumer spending, will rise substantially this year, by 2.9 % after 2.8 % last year. The increase is thus higher than the average rise of 2.0 % seen over the last 15 years.

The savings ratio will be a little lower this year than last year. Per se, the high level of migration is likely to lower the savings ratio slightly since this category of people consumes an above-average proportion of its disposable income. At the same time the low level of interest rates is reducing the incentive to save, and will thus also lower the savings ratio. In the other direction, part of the last year's gains in purchasing power resulting from the drop in oil prices is likely to be saved via the reimbursement of advance payments for heating energy, thus boosting the savings ratio. In view of the generally rather lower savings ratio, nominal consumption will therefore expand somewhat faster than disposable income. This means that private households will consume 1.9 % more (price-adjusted) than in 2015, given a continuing moderate rise in the price level (deflator for consumer spending 1.1 %). Consumer spending will therefore continue to be a major driving force for growth in Germany in 2016.

### Increased public-sector consumption due to the migration of refugees

260. Public-sector consumption will rise faster in 2016 than in the preceding year. The above-average rise is primarily due to increases in non-monetary welfare benefits and to intermediate consumption. These areas are also characterised by spending relating to the high influx of refugees.

In 2015, the public-sector budget achieved a surplus of 0.5 % in terms of nominal gross domestic product. This means that the overall public-sector budgets have been close-to-balance in every year since 2012. Not least, the Federation has contributed towards this. A municipal investment fund has been set up, and the Energy and Climate Fund topped up. Further to this, a reserve has been formed to cope with tasks related to the reception and accommodation of refugees in the coming years. 2016 is expected to see an increased outflow of funding from these funds and from the reserve, so that the overall financing balance for the state as a whole will deteriorate clearly. For this reason, the fiscal policy orientation of the 2016 state budget should be regarded as expansionary, even if the finances will be close-to-balance.

The structural fiscal surplus, i.e. adjusted for cyclical and one-off effects, will also fall considerably in 2016. The medium-term budgetary target set by Germany in the context of the European Stability and Growth Pact, of a structural deficit of at most 0.5 % in terms of nominal GDP, will continue to be met.

## Overview 6: Comparison between the 2015 annual projection and actual outcomes

Key figures for macroeconomic trends in the Federal Republic of Germany <sup>1</sup>	Annual projection 2015	Actual outcomes 2015
Percentage change on preceding year		
<b>Gross domestic product (GDP), output approach</b>		
GDP (real)	1.5	1.7
Total employment	0.4	0.8
GDP per employee	1.1	0.9
GDP per hour worked	1.0	0.5
<i>for information:</i>		
Unemployment rate in % (ESA concept) <sup>2</sup>	4.7	4.3
Unemployment rate in % (Federal Employment Agency definition) <sup>2</sup>	6.6	6.4
<b>GDP by expenditure (at current prices)</b>		
Consumption expenditure		
Private consumption expenditure	2.7	2.5
Public consumption expenditure	5.5	4.5
Gross fixed capital formation	3.8	3.1
Change in stocks (€ billion)	-32.7	-35.2
Domestic demand	3.4	2.6
Foreign balance of goods and services (€ billion)	205.8	236.9
Foreign balance of goods and services (as % of GDP)	6.8	7.8
<b>Gross Domestic Product (nominal)</b>	<b>3.8</b>	<b>3.8</b>
<b>GDP by expenditure (real)</b>		
Consumption expenditure		
Private consumption expenditure	1.6	1.9
Public consumption expenditure	1.2	2.8
Gross fixed capital formation	2.1	1.7
Machinery and equipment	1.9	3.6
Construction	2.2	0.2
Other plant and equipment	1.9	2.7
Stockbuilding (GDP growth contribution) <sup>3</sup>	0.0	-0.4
Domestic demand	1.6	1.6
Exports	3.6	5.4
Imports	4.1	5.7
External balance of goods and services (contribution to GDP growth) <sup>3</sup>	0.1	0.2
<b>Gross Domestic Product (volume)</b>	<b>1.5</b>	<b>1.7</b>
<b>Prices (2010 = 100)</b>		
Private consumption expenditure <sup>4</sup>	1.0	0.6
Domestic demand	1.8	1.0
Gross Domestic Product <sup>5</sup>	2.2	2.1
<b>Distribution of gross national income</b>		
<i>(resident concept)</i>		
Compensation of employees	3.6	3.9
Income from self-employment and property	4.4	4.6
National income	3.8	4.1
Gross national income	3.6	3.7
<i>for information (resident concept):</i>		
Employees	0.5	1.1
Total gross wages and salaries	3.7	4.0
Total gross wages and salaries per employee	3.2	2.9
Disposable income of private households	2.7	2.8
Savings ratio in % <sup>6</sup>	9.2	9.7

1 Up to 2015 figures from the Federal Statistical Office; National Accounts Status: January 2016.

2 In relation to the total labour force.

3 Absolute change (stocks/external balance) in per cent of pre-year GDP (=contribution to change in GDP).

4 Consumer price index, percentage change on preceding year: annual projection 2015: 0.8%; actual outcome 2015: 0.3%.

5 Unit labour costs, percentage change on preceding year: annual projection 2015: 1.9%; actual outcome 2015: 1.8%.

6 Saving in per cent of private households' disposable income including occupational pension claims.



