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2014 Annual Economic Report

The Social Market Economy today – stimulating growth
and cohesion

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Preface



“The social market economy today – stimulating growth and cohesion”

The German economy and labour market are doing well. Germany’s growth rates are among the highest in Europe. Employment levels are at an all-time high. The German industrial sector is highly competitive. Germany is now being seen as a prime example of how a strong industrial sector creating value-added, together with structural reforms and a successful innovation policy can safeguard a country’s competitiveness whilst maintaining high levels of employment. We must now aim to build on this positive trend and increase it further.

Despite all this positive news, our country is faced with considerable challenges: In the international comparison, the level of investment in Germany is rather low; much of our infrastructure needs upgrading; particularly our transport and information and communication technologies infrastructure. Since the 1990s, the German labour market has increasingly bifurcated into a regular and a low-wage sector, with the latter expanding to a worrying degree. The transfer from research and development into industrial processes is taking too long and the number of start-ups is falling, particularly in technology-related sectors. A complete restructuring of the energy supply is under way in Germany, as our country is moving to an energy system that mainly relies on renewables and better energy efficiency. And finally, demographic change is making it harder for German companies to find the skilled labour they need.

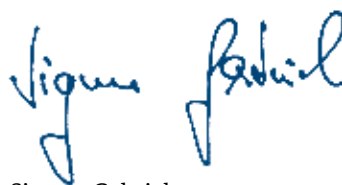
We are determined to closely consult and work together with the general public, companies, and trade unions as we address these challenges. It will be absolutely crucial that we succeed in resolving deadlock and in reconciling what seem to be contradictory notions:

- Market and state: Government action and the business environment created by government have to be wisely balanced with market-based processes. After all, a market economy that lacks sufficient regulation, for instance of the financial markets or with regard to environmental or social standards, is not a social market economy equipped for the challenges of today’s world.
- Macro and micro policy: Wise innovation and education policies are among the basic conditions for growth and

employment. At the same time, for these policies to have their desired effect, they depend on setting the right environment in terms of monetary and fiscal policy, wage setting and investment.

- Demand-driven and supply-driven policy: Domestic demand is increasingly becoming a driver of our economic growth. Wise investment and innovation policies will support this by cutting red tape, making it easier to start up companies and file for patents, and by introducing smart working-time models.
- Stimulus and austerity measures: Germany and Europe as a whole need a forward-looking fiscal policy that takes the current economic situation into account. There can be no balanced budget without growth. This is why the structural deficits need to be brought down in a way that does not impede future-oriented investment.
- Industrial and environmental policies: The German economy is very much centred on the industrial sector. If Germany is to remain competitive, it needs an industrial philosophy that is focused on sustainability and energy and resource-efficiency. In line with these requirements, we are pushing ahead with our energy reforms, which give equal consideration to the goals of mitigating climate change and protecting the environment, and ensuring a secure supply of energy that is also affordable.
- Industrial and services economy: The services sector depends on a strong industrial sector whilst also sparking innovation within this sector.
- Flexibility and security: A modern society needs to embrace flexible labour markets and working-time models. What Germany needs in order to successfully shoulder the burden placed on individuals and society as a whole is a new model that offers “flexicurity”: flexibility added on to secure standards set by way of collective bargaining. This will create a reliable basis for employees and their families to plan on.
- Investment: We are fostering public and private-sector investment. Our goal is to reach an investment rate that is above the OECD average.
- Innovation: We are deploying an active industrial policy. Our approach is to focus on the lead markets and lead technologies of the 21st century, to provide the scientific infrastructure needed to support these, and to improve the way in which innovation is brought to market.
- Infrastructure: We want to make sure that Germany is fit for the future, which is why we are actively promoting the key areas of digital infrastructure and transport infrastructure. We will be investing more in our transport infrastructure and actively continuing our broadband expansion scheme.
- Internationalisation: We want to support German companies - particularly SMEs - as they do business with international growth markets. Furthermore, Germany has to become more attractive for inward investment.
- Integration of labour and tapping all the skills reserves: The skilled labour available in our country will be a key factor for investment in Germany. We therefore have to tap our domestic skills reserves: This includes reducing the number of school drop-outs and apprentices that do not finish their training. It also means giving people under 35 who have no vocational qualifications a second chance. In addition to this, immigration is and will remain vital for Germany to be able to meet its demand for skilled labour.

All this can help us reinvigorate the social market economy, stay innovative in the long term, increase prosperity, and strengthen the social fabric in Germany. The Federal Government’s 2014 Annual Economic Report sets out the first steps we are planning to take in order to achieve this.



Sigmar Gabriel

Federal Minister for Economic Affairs and Energy

If we can build bridges to reconcile these apparent contradictions, we can master the challenges of the coming years. To this end, we will be deploying policies in the coming years specifically designed to tackle the five “I”s:

The 2014 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 2014 Annual Economic Report to the German Bundestag and the Bundesrat. It also provides benchmark data for the overall orientation of the economy in 2014, 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 2013 Annual Economic Report as well as the measures planned for 2014 and beyond. 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 2014.

The Federal Government would like to thank the German Council of Economic Experts for its detailed and comprehensive analysis of economic developments in 2013 and the outlook for 2014, as well as for its discussion in its 2013/14 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' 2013/14 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. The Federal Government will safeguard and build on the foundations for prosperity, social cohesion and a high quality of life in Germany. It is counting on forward-looking investment, on innovation and research, on efficient infrastructure, on the integration of labour and, not least, on the continuing internationalisation of the German economy. It aims to deploy a modern and practical economic policy in order to overcome impediments to productivity. The Federal Government is therefore aiming to provide a fresh stimulus for dialogue, co-operation and trusting social partnership. The intention is to renew, revitalise and update the Social Market Economy.

2. As projected in the 2013 Annual Economic Report, gross domestic product (GDP) expanded by 0.4% as an average for 2013. Following a period of weakness due to poor weather in the 2012/13 winter semester, the German economy has shifted to a stable path of recovery.

3. For 2014, the Federal Government assumes that gross domestic product will record an annualised increase of 1.8% (cf. Overview 1). The sound underlying cyclical dynamism is reflected in a broad-based and continuous upward development. The indicators of sentiment suggest that consumers and companies have confidence in a positive cyclical development. Economic growth in Germany will thus probably once again be far higher than the eurozone average.

4. In arithmetical terms, growth this year will be driven solely by domestic forces. A crucial role for this domestic economic dynamism will be played by the good development of the labour market, which is on course for another record level of employment. The level of gainful activity is expected to rise this year by 240,000 people to 42.1 million. The favourable growth and profit outlook for companies will allow employment and wages to rise. This will result in appreciable increases in income for private households. In view of the favourable environment, private households will spend considerably more on consumption and house-building. To the extent that no serious disruption occurs in the international environment, German exports will also rise again. The prospects for this have improved thanks to last December's decisions on a further liberalisation of global trade in the context of the World Trade Organization. Higher investment in equipment and increasing exports will – in view of their high import content of over 40% – also stimulate the level of German imports. Imports will rise faster than exports this year. This will reduce the German current account surplus. Rising imports and increasing foreign investment by German firms will foster Europe's economic recovery.

5. Macroeconomic productivity and corporate profits are likely to improve this year in the course of the upswing. There are no expectations of inflationary tensions. Unit wage costs will record a moderate increase. In view of this

Overview 1: Selected key figures for macroeconomic trends in the Federal Republic of Germany¹

	2012	2013	Annual projection 2014
Percentage change on preceding year			
Gross domestic product (GDP), output approach			
GDP (real)	0.7	0.4	1.8
Total employment	1.1	0.6	0.6
Unemployment rate in % (Federal Employment Agency definition) ²	6.8	6.9	6.8
GDP by expenditure (real)			
Private consumption expenditure	0.8	0.9	1.4
Machinery and Equipment	-4.0	-2.2	4.0
Construction	-1.4	-0.3	3.2
Domestic demand	-0.3	0.7	2.0
Exports	3.2	0.6	4.1
Imports	1.4	1.3	5.0
External balance of goods and services (contribution to GDP growth) ³	0.9	-0.3	-0.1
Total gross wages and salaries per employee	2.9	2.3	2.7

1 Up to 2013 results of the Federal Statistical Office; National Accounts Status: January 2014;

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).

positive environment, a broad-based cyclical upturn can be expected.

6. A central assumption for the projection is that the financial sector will remain stable and that in the eurozone in particular there will be no negative developments which will cause a renewed significant increase in uncertainty amongst the market players.

7. Since the turn of the millennium, Germany's economy has developed well, but continues to face major challenges. The Federal Government wants to take advantage of the present good economic situation in order to strengthen the foundations for prosperity and participation of people in Germany and Europe on the basis of a Social Market Economy characterised by dialogue, co-operation and trusting social partnership. It will attain this in the coming years via the resolute implementation of four strategic economic policy goals – a targeted investment and innovation policy, the improvement of possibilities for participation and the fairness of participation, a successful continuation of the *Energiewende* and the stabilisation and deepening of economic and monetary union in Europe – in the context of a sound budgetary policy. Furthermore, the Federal Government aims to foster and develop the level of acceptance in society of German industry as well as its innovative potential and particular core skills.

8. The Federal Government will launch a dialogue with the citizens about their understanding of quality of life. At the same time, it will draw on a broad spectrum of studies and systems of indicators. On this basis, the Federal Government also aims to develop a system of indicators and reporting on quality of life in Germany.

Furthermore, it will review the Stability and Growth Act together with the German Council of Economic Experts.

9. Guided by clear budgetary principles, the Federal Government will continue the consolidation of the federal budget. It will shape revenues and expenditure in such a way that the budget is structurally balanced this year and the federal budget will avoid net new borrowing from next year on. In this way, the Federal Government is making a major contribution towards the planned reduction in the overall national debt rate to below 70% of GDP by the end of 2017 and to below 60% of GDP within ten years.

10. Tax simplification will continue to be an ongoing task; the Federal Government aims to proceed step by step here, and particularly to use the technical possibilities offered by

modern data processing. In the field of corporate taxation, the Federal Government will focus on developing specific aspects of tax law, taking account as it does so of the particular interests of small and medium-sized enterprises. The inheritance (gift) tax, which will be continued by the Federal Government, should not imperil the hand-over of companies to the next generation in future either.

11. The Federal Government intends to reduce tax flight and tax avoidance. To this end, the Federal Government is working actively with its European and international partners on the OECD's Base Erosion and Profit Shifting (BEPS) initiative. If it proves impossible to attain the objectives in the context of the G20/BEPS initiative by 2015, the Federal Government will adopt national measures. At the same time, it is supporting the development of the global standard for the automatic exchange of information regarding financial accounts.

12. Federation-*Länder* fiscal relations must be restructured by the end of 2019 at the latest. To this end, the Federal Government will engage in discussions with the *Länder*. In parallel to this, a Commission will be established consisting of representatives of the Federation and the *Länder* and including representatives of the municipalities. The Commission is to present proposals by the mid-point of this parliament. Here, the crucial point for the Federal Government is that each level – Federation, *Länder*, municipalities – remains able to function and to exercise responsibility for its policies as it tackles its tasks. The national system of fiscal equalisation makes a substantial contribution towards funding the fiscally weak *Länder* and municipalities.

13. Germany has made substantial progress on the labour market. Long-term unemployment has fallen, and the number of employees subject to social security contributions has risen tangibly. This good development – particularly in the international comparison – in employment in Germany underlines the significance of an open and functioning labour market, a strong social partnership and free collective bargaining as fundamental pillars of the Social Market Economy.

14. The labour market is currently very receptive to new workers – rarely has it been more so – and is opening up opportunities for people who were previously unable to participate in this positive development. At the same time, however, the low-wage sector has expanded to a problematic degree since the 1990s. For this reason, the Federal Government aims to adapt the policy environment to

ensure secure and good work with fair pay, as well as a strong social partnership between employers and trade unions. A generally binding statutory gross minimum wage of €8.50 per hour is intended to ensure an appropriate level of minimum protection throughout Germany. On the one hand, good work must be worthwhile and provide for basic needs. On the other, productivity and the wage level must be aligned so that jobs subject to social security contributions are not lost. A strong social partnership, a statutory minimum wage, collective agreements, with only one collective agreement applying in any one company, extension of wage agreements to non-contracting parties, and co-determination should all contribute towards this. The Federal Government will shape the minimum wage in such a way that, if possible, no jobs at all are lost. Furthermore, it will focus the system of temporary workers on its core functions and will prevent the abuse of work and services contracts.

15. Covering the demand for skilled workers whilst at the same time opening up better earnings opportunities to people is a major task for the whole of society. The Federal Government will primarily focus on people in Germany and will advance their degree of integration into the labour market. Together with the social partners and the *Länder*, it aims to turn the training pact into an alliance for initial and further training. But advantage should also be taken of the opportunities to attract skilled workers from the global labour market to come and work in Germany.

16. The Federal Government wishes to work in partnership with the business community to improve equality of opportunity for women and men in companies. For this reason, it wishes to see an increase in the proportion of women in managerial positions in companies. Also, the Federal Government, alongside the parties to collective bargaining, wishes to help promote the principle of “equal pay for equal and equivalent work”.

17. The state is responsible for ensuring equality of opportunity irrespective of social origin and the greatest possible breadth of opportunities for career advancement. Education should not be a privilege, but an effective lever for professional success for people from all social strata. For example, the Federal Government aims to help the *Länder* to further improve the quality of day-care for children and to gradually expand all-day care in childcare facilities. High quality childcare services also open up better possibilities to combine family life and work. Further to this, the Federal Government uses various instruments to support the permeability of the education system.

18. People should be able to continue to rely on the social security systems once they reach old age. For this reason, the Federal Government aims to do more to reflect life-time performance and many years of paying in contributions to the pension fund. For this reason, firstly it is giving employees with a long working life behind them the opportunity to retire without loss of pension after 45 years of paying in contributions. Secondly, the child-raising efforts of mothers and fathers whose children were born before 1992 are to be rewarded with an additional remuneration point per child in the statutory pension system. Furthermore, the Federal Government aims to appreciably improve the pension entitlements of disabled people unable to do a full day's work.

19. The Federal Government will stipulate in law that the general contribution towards statutory health insurance, financed equally by employers and employees, stands at 14.6%. In future, the statutory health funds will levy the fund-specific additional contribution, which will include the existing special contribution of 0.9%, as a percentage of the assessable income. In order to improve the situation of those in need of care and their dependants, the contribution rate to long-term care insurance to which employees and employers contribute equally will be raised by 0.3 percentage points as of 1 January 2015 at the latest. A new provident fund (*Vorsorgefonds*) is to strengthen the sustainability of the long-term care insurance system. In a second step, the implementation of a new, expanded concept of people in need of care will raise the contribution by a further 0.2 percentage points.

20. Germany's strengths lie in an internationally competitive economy dominated by small and medium-sized enterprises with a modern, dynamic industrial sector at its core. Germany will engage constructively in the European debate on an increased liberalisation of the internal market for services. Here, the Federal Government aims to ensure that the Master Craftsman's Certificate is retained and not impaired by measures for the European internal market. It is necessary to strengthen the self-administration of the business community in the form of the chambers.

21. The Federal Government will evaluate the effects of the new rules of the eighth revision of the Act against Restraints on Competition. It will consider further steps to improve the administrative and court procedures for anti-trust violations and it will aim to strengthen the enforcement of competition law by authorities and private parties. In order to counter at an early stage any dangers to the diversity of the press which might derive from the increas-

ing digitisation of the media, it will facilitate operational co-operation in terms of competition law between publishing companies below the editorial level.

22. The Federal Government supports the concept of an integrated DB AG group. The Federal Government will regulate the railways in a proportionate manner in order to ensure transparency and non-discriminatory market access.

23. The implementation of the new EU procurement rules should be used to make procurement procedures simpler, more flexible and more user-friendly in Germany as well. The possibility to give consideration to social and ecological aspects in compliance with the economic efficiency principle should be enhanced. The Federal Government will also examine the extent to which – whilst observing European law – arrangements can be made at federal level to make the award of public contracts dependent on adherence to generally applicable collective bargaining agreements.

24. New start-ups and young businesses provide innovative services and products which advance society. For this reason, the Federal Government will continue to give them targeted support.

25. Barriers impeding the financing of small and medium-sized enterprises must be reduced. One important aspect will be to safeguard “classic” financing for small and medium-sized enterprises via savings banks, Volksbanken, co-operative banks, private banks, business promotion banks and guarantee banks. To this end, the Federal Government will, *inter alia*, engage attentively with the introduction of the new rules on capital adequacy and liquidity requirements (Basle III). Access to traditional bank loans is often difficult for innovative start-ups and young companies. For this reason, the Federal Government aims to make the legal and tax rules for venture capital internationally competitive in a permanent dialogue with the European Commission.

26. The Federal Government will invest more in infrastructure, will improve the conditions for a digital infrastructure for the future, and will further strengthen the innovative dynamism. A total of €5bn of additional money is to be provided for urgently needed investment in public transport infrastructure over the next four years, primarily for maintenance purposes. The truck toll is to be developed further to provide additional funding for the maintenance and expansion of the federal trunk road network. Also

there are plans to levy an appropriate charge on the owners of cars not registered in Germany (the “vignette”). This requires an approach which conforms with European law in which domestic car owners are not subject to greater burdens than at present.

27. With regard to housing, the Federal Government’s policy is based on three aims: to strengthen investment activity, to revive the building of social housing, and to provide balanced backing in terms of tenant law and social policy.

28. The Federal Government aims to keep investment in research constant at 3 % of GDP. It will continue to develop the High-Tech Strategy into a comprehensive, interdepartmental innovation strategy for Germany. The Strategy will cover both technological and societal innovations. The aim is to move the findings from all fields of research into applications.

29. The Federal Government will adopt a comprehensive Digital Agenda 2014 – 2017 and will implement it together with the business community, the parties to collective bargaining, civil society and the academic community. The aim is particularly to extend the digital infrastructures, to accelerate the development of forward-looking digital technologies, and to support the digitisation of traditional industry (“Industry 4.0”). The topics of IT security and the prevention of industrial espionage, as well as the question of adapting criminal law to the digital age, will also play a particular role. The platform for this digitisation will be efficient broadband networks. For example – and using all available technologies – there is to be nationwide coverage of at least 50 Mbit/s by 2018.

30. The Federal Government will continue to implement the *Energiewende*. Here, it will be guided by the “energy policy triangle” of the equally important goals of climate and environmental compatibility, security of supply and affordability. As the policies are further being implemented, greater attention must be paid to cost efficiency, economic efficiency, the ability to plan for the future, and reliability.

31. The Federal Government is in favour of a sustainable, continuous and affordable expansion, coupled with further market and systems integration, of renewable energies. By Easter 2014, it will present a proposal for a fundamental reform of the Renewable Energy Sources Act which will interrupt the existing cost dynamics of the Act and thereby limit the rise in electricity costs for electricity consumers. In order to safeguard the international competitiveness of German industry, the Federal Government will retain the

special equalisation scheme. It will review the scheme on the basis of objective and transparent criteria and develop it further in conformity with European law.

32. The grid reserve is to be developed further in the next few years. In the medium term, the Federal Government will develop a competition-based and technology-neutral capacity mechanism with a view to cost efficiency and in conformity with European law. Alongside other flexibility options, a mixture of various storage technologies will be necessary in the long term. The Federal Government will press ahead with the rapid expansion of the power grids. In order to better integrate the expansion of grids and renewable energies, the expansion corridor for renewables, as fixed in law, is to form the basis of the grid expansion.

33. In 2014, the Federal Government will produce a National Action Plan for Energy Efficiency which contains the targets for the various fields, the instruments, the financing and the responsibilities of the various players.

34. As a strategic element of energy policy, energy research within the framework of the Sixth Energy Research Programme will be focused on the *Energiewende*. The Federal Government is keeping track of the transformation of the energy supply in the “Energy of the Future” monitoring process. It will continue the dialogue with the business community, trade unions, the scientific community and societal groups and will comprehensively involve the citizens in the implementation of the *Energiewende* projects.

35. German industry depends on a reliable supply of raw materials, particularly when it comes to developing high technologies. First and foremost, it is up to the companies themselves to cover their needs on the market. The Federal Government will support them by improving the policy environment for resource efficiency and the closed-cycle economy, promoting domestic extraction of raw materials, ensuring fair and transparent conditions in the commodities trade, and entering into raw materials partnerships. In order to boost resource efficiency, the German Resource Efficiency Programme is to be developed further, a Resource Efficiency Platform established and advice for businesses and private citizens improved.

36. In comparison with other industrial nations, Germany is leading the way forward on cutting greenhouse gas emissions. The Federal Government is in favour of cutting greenhouse gas emissions within the European Union by at least 40 % by 2030 compared with 1990, as part of a triad of

goals, i.e. greenhouse gas reduction, the expansion of renewables and energy efficiency.

37. There are increasing signs of economic recovery in Europe. This is due not only to the measures at European level, but also to the considerable efforts made in the programme countries, as well as the supportive policy on the part of the ECB.

38. Nevertheless, the crisis is not yet overcome. The crisis in the eurozone has been caused by a variety of factors. They range from excessive borrowing by certain European countries to a lack of competitiveness, economic imbalances, design faults in the European Economic and Monetary Union and undesirable developments on the financial markets. The structural causes of the crisis must be further corrected. If Europe is to find a permanent way out of the crisis, it will need a comprehensive approach which combines in a socially balanced way structural reforms for better competitiveness with strict, sustainable budget consolidation and forward-looking investment in growth and jobs.

39. The Federal Government is committed to the rules of the strengthened Stability and Growth Pact and is working in Europe to ensure that they are properly applied. It is in favour of a resolute implementation of the imbalance procedure. This boosts confidence in a credibly sustainable fiscal and economic policy on the part of the member states and thus also strengthens the foundations for growth. The use of an EU progress scoreboard for jobs and social development should be pursued further.

40. Together with the European partners, the Federal Government aims to reduce economic imbalances whilst complying with the rules of the reformed Stability and Growth Pact. Germany will contribute to this through its domestic dynamism with a further rise in employment, the introduction of a statutory minimum wage, the orientation of temporary agency work to its core functions, appropriate policies for responsible collective bargaining and the strengthening of investment. It is vital that countries whose current accounts record or recently recorded high deficits maintain their efforts for structural reforms, e.g. on the labour and product markets.

41. Further to this, it is important to continue to develop the Economic and Monetary Union in a way that makes sense. Here, one aim should be to improve the co-ordination of national economic policies and the implementation of necessary reforms and to make it more binding. The Federal Government is also advocating that the eurozone

countries conclude binding and enforceable, democratically legitimised contractual agreements on reforms with the European level which are oriented towards achieving the goals of competitiveness, sound and sustainably viable finances, growth and employment, coupled with solidarity.

42. The Federal Government will press hard to ensure that the Compact for Growth and Jobs adopted by the European Council in June 2012 is properly implemented. The resolute implementation of the “Youth Guarantee” agreed at European level by all member states is of particular significance. In order to boost the mobility of trainees and workers in Europe, the EURES network of the European labour administrations should be strengthened.

43. The Federal Government continues to press for the rapid implementation of a financial transaction tax via enhanced co-operation in the EU, with a broad assessment basis and a low tax rate.

44. With regard to financial market regulation, the Federal Government is guided by the G20 principle that no financial market, no financial product and no financial market player should be left without appropriate supervision.

45. It must also be possible for “systemically relevant” banks to leave the market in future. For this reason, the Federal Government has advocated clear pan-European resolution rules and a clear cascade of liability: accordingly, losses must be borne first by the bank and its shareholders, and then by its creditors. Should there be a need for finance beyond this, resolution funds paid into by the banks must be created. Should the funds of the private sector be insufficient and taxpayers’ money be necessary for the resolution of a bank, the money should first be provided by the respective member state. In the view of the Federal Government, direct recapitalisation from the ESM can only be considered if prior to this all other means have been exhausted.

46. The shadow banking system must be regulated in such a way that, in principle, the same regulation applies as in the traditional banking sector for the same transaction and risk to financial stability. Also, the Federal Government aims to strengthen the functioning and robustness of the securities and derivatives markets. In particular, their transparency should be increased in order to tackle undesirable developments and systemic risks.

47. The 9th WTO Ministerial Conference in Bali from 3 to 7 December 2013 achieved a breakthrough in the WTO’s multilateral negotiations. This provides an important stimulus towards working step by step through other issues of the mandate for the Doha Round negotiations and maintaining the prospects of a successful overall conclusion. Furthermore, the Federal Government aims at balanced and ambitious free-trade agreements between the EU and leading third countries.

48. The Federal Government will boost the transparency of its decisions on military equipment exports for the parliament and the public.

49. The Federal Government maintains the aim of providing an amount equivalent to 0.7% of gross national income for public development co-operation. German development co-operation works locally to improve the business environment, promotes regional growth and employment, and helps to develop local and regional markets.

I. The Federal Government's economic and fiscal policy

A. The Social Market Economy today – strategy for sustainable progress, growth and jobs

50. The Federal Government will safeguard and build on the foundations for prosperity, social cohesion and a high quality of life in Germany. One condition for this is lasting and sustainable economic growth which combines economic efficiency with social responsibility and protection of the natural environment. For this to take place, there must be strong domestic dynamism and an attractive environment for investment, international competitiveness and strength in exports, as well as good employment opportunities and possibilities to participate.

51. The Federal Government is banking on forward-looking investment with the aim of attaining a rate of **investment** which reaches at least the OECD average, on **innovation** and research and a more efficient transformation of them into added value, on efficient **infrastructure**, particularly in the fields of transport, information and communications technology, on the **integration of labour** and the leveraging of skills reserves, and not least on the continuing **internationalisation** of the German economy with the particular task of paving the way for small and medium-sized enterprises (SMEs) to master fast-growing global markets. To this end, it is necessary to deploy a modern and practical economic policy in order to overcome impediments to productivity. It is necessary to tackle what are in many cases only apparent, but not actual, contradictions between market and state, growth and sustainability, industry and ecology, or international competitiveness and good work.

52. The Federal Government is aiming to provide a fresh stimulus for dialogue, co-operation and trusting social partnership. The intention is to renew, revitalise and update the Social Market Economy. That is the only way to succeed in mastering the challenges of the coming years and to strengthen prosperity and social cohesion in Germany.

53. Since the turn of the millennium, Germany's economy has developed well. Germany's growth outlook for 2014 places it at the head of the field in European terms. The number of persons in employment subject to compulsory social insurance payments is rising. The competitiveness and innovative capacity of the German economy are at a high level. In the international comparison, Germany is now regarded as an outstanding example of how it is possible to deploy a comprehensive policy of industrial innovation alongside structural reforms, a sound budget policy and – as in the context of the global economic and financial market crisis –

measures to stimulate the economy and growth, thereby attaining a high level of competitiveness and employment.

54. However, Germany is still facing great challenges in terms of the demands made by its energy policy to reform and modernise, of digitisation, infrastructure, demographic change, the need for skills, and Europe. The Federal Government is pursuing a strategy for sustainable progress together with commerce and the trade unions: investment is to rise; innovation is to become more dynamic; the infrastructure is to be brought up to date for the 21st century, via maintenance and modernisation work and a targeted and accelerated expansion, e.g. of energy, transport and digital infrastructure. It is necessary to ensure the ability of the economy to compete on price, particularly via a successful continuation of the energy reforms and a limitation of the costs of electricity. Germany also needs greater equality of opportunity and broader possibilities to rise through the education system, better training and further education, better preventative healthcare at work, a higher female labour participation rate, with women also taking leading positions amongst German business leaders on an equal basis. It needs to strengthen employment, not least via a productivity-oriented wage development. The Federal Government is banking on Germany's strengths which proved their worth during the financial market crisis: a reliable social partnership and a broad industrial value chain from the basic materials industry through to highly innovative capital and consumer goods.

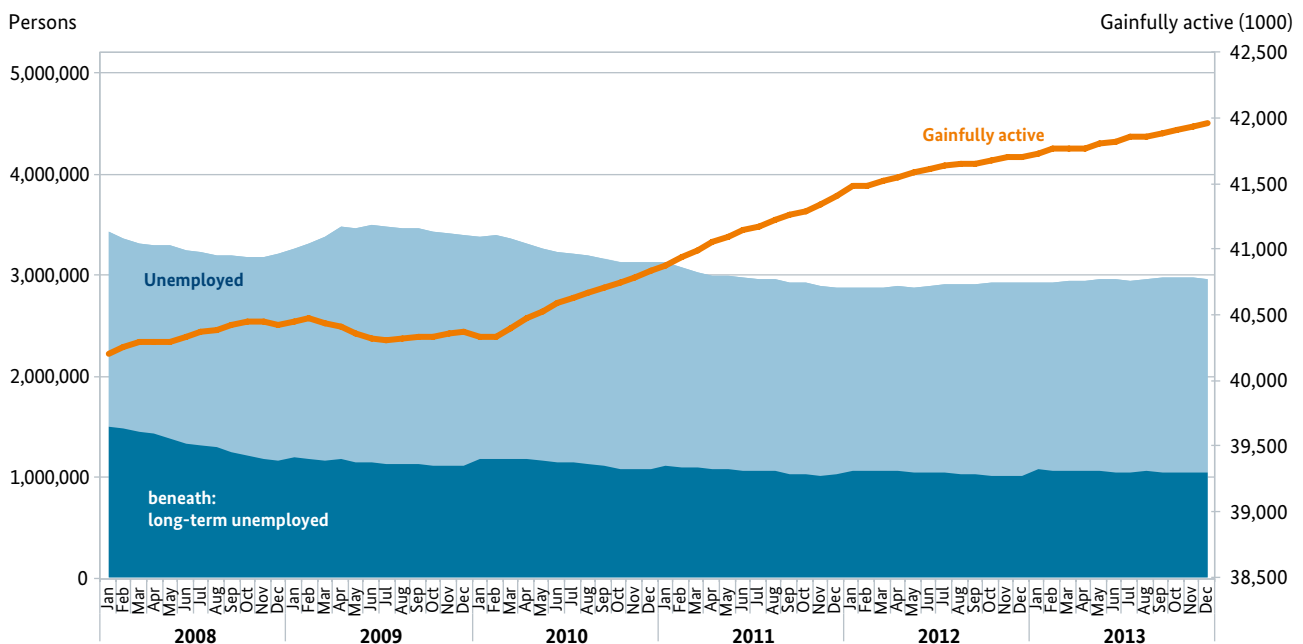
55. Germany has emerged stronger from the reform processes of the past. The growth prospects of the German economy are likely to amount to an average of 1½% a year; at approx. 42 million people, gainful activity is at a record level (cf. Diagram 1). By providing better investment, innovation and participation opportunities, the Federal Government is aiming to attain an even higher growth path in the medium and long term. At the same time, it is restructuring the labour market to correct problematic social developments caused by structural change in employment, but also by the partial misuse of instruments like the use of temporary workers or contract workers. The Federal Government advocates wages which are appropriate to performance and fair conditions of employment.

56. The Federal Government wants to take advantage of the present good economic situation in order to strengthen the foundations for prosperity and participation of people in Germany and Europe on the basis of a Social Market Economy characterised by dialogue, co-operation and trusting

social partnership. It will do this in the coming years by resolutely implementing four strategic economic policy goals in the context of a sound policy on public budgets:

- Firstly, a **targeted investment and innovation policy**. This mainly involves the modernisation of the **infrastructure** base in Germany. Investment in infrastructure will both strengthen the dynamism of the domestic economy and create a second pillar of economic development in Germany and Europe alongside Germany's strength in exports. Also, efficient infrastructure improves the framework for private investment. Furthermore, innovation must derive from new ideas, and research results must be transformed into applications more quickly. All of this lays the foundation stone for higher medium-term growth and sustainable and lasting prosperity in Germany and Europe.
- Secondly, the improvement of possibilities to participate, and to **participate fairly**, through better education and better integration in the labour market. This will create fair income opportunities for all. At the same time, good integration policy is good growth policy, particularly in a time of demographic change. It mobilises untapped talent and safeguards the availability of skilled labour in Germany in the face of demographic challenges.
- Thirdly, a successful **continuation of the energy reforms**, oriented equally to the objectives of climate and environmental compatibility, security of supply and affordability. Electricity prices should remain affordable for commercial, industrial and private consumers. There should be a clear framework in which investment and innovation can take place. As a central component of the energy reforms, even greater weight must be given to energy efficiency. Greater attention should be paid to cost efficiency and affordability. In years to come, renewables are to survive on the market without subsidies. Renewables are to be better integrated into the electricity market.
- Fourthly, the **stabilisation and deepening of the economic and monetary union** in Europe. This includes – in addition to national and European reforms for more growth, higher competitiveness and employment, greater co-ordination of economic policy and the continuation of pro-growth budget consolidation – the

Diagram 1: Unemployed and gainfully active people in Germany



Unemployed: seasonally adjusted figures; long-term unemployed: unadjusted figures
Gainfully active: domestic concept, seasonally adjusted figures

Source: Federal Employment Agency, Federal Statistical Office

establishment of a European banking union which strengthens banking supervision and permits the resolution of banks, reduces the danger of new financial market crises and protects taxpayers at national and European level from the consequences of banking crises. This includes better regulation and a taxation of European financial markets via enhanced co-operation.

The coalition agreement sets the course and provides the basis for this.

Investment, innovation and competition – basis for viable growth

57. A modern, efficient and secure infrastructure, investment in education and research, and a high intensity of innovation form a key foundation for growth and competitiveness in the German economy, strengthen the possibilities to participate, and thus enhance social cohesion in Germany. The Federal Government will give a lasting boost to the long-term possibilities for growth via targeted public-sector investment and a better environment for private-sector investment in Germany. For this reason, the Federal Government will invest more in education, research and infrastructure, whilst continuing the sustainable consolidation of the overall budget (cf. Box 1).

58. Germany must remain a competitive environment which attracts skilled labour and investment from home and abroad. Market opening and competition, a stable economic environment, openness to technology and good financing conditions are therefore of central importance – particularly for SMEs.

59. Competition on the basis of common standards is of fundamental importance for the functioning of the Social Market Economy. The deepening of the internal market and the ongoing development of the rules for competition on the one hand, coupled with the establishment of joint standards and the strengthening of the social dimension of the European Union on the other, play a key role in international competitiveness, prosperity and quality of life in Germany and Europe. The Federal Government will work at national and European level to strengthen the enforcement of competition law.

60. The Federal Government will provide an additional €600m to promote urban development and €5bn for a modern, safe and efficient public transport infrastructure.

The intention is to boost investment in maintenance and, where necessary, in the expansion of existing and building of new transport routes.

61. In spending approx. 3 % of GDP on research and development in 2012, Germany remains well above the EU average.

Two-thirds of this research and development is funded by companies. The Federal Government, the *Länder* and the municipalities will work together to boost public investment in education, science and research. The Federal Government will make a substantial contribution towards this.

62. The internet and digital technologies are important growth multipliers. By 2018, therefore, high-speed broadband connections of at least 50 Mbit/s are to be available nationwide throughout Germany. In order to create the environment for this, the Federal Government will develop its Broadband Strategy further, particularly with a view to a greater inclusion of rural areas.

63. In order to ensure an open and free internet, the Federal Government will work towards a statutory anchoring of network neutrality in the Telecommunications Act and at European level.

64. By promoting investment and commerce-related infrastructure, the Joint Federal-*Länder* Scheme “Improving the Regional Economic Structure” activates regional growth. Structurally weak regions in the east and the west are thus supported as they undergo structural change. In the context of the planned restructuring of fiscal relations between the Federal and *Länder* governments, the Joint Scheme is to serve as a starting point for considerations as to whether and how the special funding programmes for eastern Germany can gradually be transferred into a nationwide system for structurally weak regions. The Federal Government will draw up the foundations for a nationwide system to promote structurally weak regions after 2020 during this period of legislation.

65. The investment rate in Germany has tended to fall since the turn of the millennium. The proportion of GDP accounted for by gross fixed investment dropped from 21.5 % in 2000 by 4.3 percentage points to 17.2 % in 2013 in Germany. It is vital to precisely analyse the causes of this development in order to close gaps in investment, e.g. in infrastructure.

New growth thanks to strategic innovation and industrial policy

66. During the financial market crisis of the last few years, Germany's strong industrial anchor has proved particularly robust. Germany's efficient industrial sector enjoys an excellent global reputation, forms the core of the country's strength in exports, and represents a value chain which links numerous component suppliers and service providers. Whilst the significance of the industrial sector has declined sharply in some other countries, the German economy has not strayed from the successful path of industrial innovation. The Federal Government is aiming to promote and develop the level of acceptance in society, the innovative potential, and the particular core competences of German industry. Not least, these truly help us to master the major challenges e.g. of the energy reforms, climate change, resource efficiency, healthcare, global communications, increasing individual mobility, and the growth in the movement of goods.

67. For this reason, the Federal Government will develop and expand the High-tech Strategy into a comprehensive, interministerial innovation strategy; this will include Germany's core industrial capabilities. There will be an increased focus on the major challenges like digitisation, sustainability and demographic change. Both technological and societal innovations will be covered. The aim is to transfer the results of the research in all the fields across to applications. Also, the environment will be made more innovation-friendly. At the same time, the Federal Government will strengthen the dialogue between commerce, science and society on the importance of a forward-looking economy in the 21st century, and will include Europe's opportunities to overcome the current European crisis via industrial renewal.

Here, the Federal Government is aiming to form innovation alliances with partners from the business and trade-union sides, science and education. The promotion of innovation processes should cover all the lead markets and key enabling technologies which are of relevance for Germany.

Box 1: The Federal Government's priority measures

The Federal Government is setting the following priorities in particular for the current period of legislation, and these are not subject to a financing reservation:

- Financial relief for the municipalities in the context of the adoption of the Federal Participation Act (Federal Benefits Act for People with Disabilities) totalling €5bn p.a. from integration assistance.
Even before the adoption of the Federal Participation Act, the Federal Government will start by providing €1bn p.a. in relief for municipalities.
- The *Länder* and municipalities are facing major challenges in the financing of childcare facilities, kindergartens, schools and universities. To help them tackle these tasks, the *Länder* will receive €6bn in relief in the current period of legislation. Should this funding be insufficient for additional childcare needs, it will be topped up in line with the perceived requirement.
- A total of €5bn of extra funding is being mobilised for the urgently needed investment in public transport infrastructure.
- The Federal Government is providing a total of €600m of additional money towards urban development; the total amount will thus be €700m p.a.
- The funding available for the integration of job-seekers will be increased by €1.4bn.
- The Federal Government is continuing to fund non-university research establishments, the Higher Education Pact, the Pact for Research and Innovation and the Excellence Initiative.
The increased amount for non-university research will be funded solely by the Federal Government in future. €3bn is available for this.

These include for example mechanical and plant engineering, production technology, materials technology, energy and environmental technology, mobility and logistics, healthcare and medical technology, and not least information and communications technology with its impact on the media and creative sectors.

68. Strategic innovation policy systematically includes the services sector. The traditional distinction between industry and services has disappeared in many cases; industrial production taking place in conjunction with upstream and downstream services. The Federal Government is looking to tap the innovative potential of modern services

Good work, education, participation and social security for the people

69. Well-paid work, participation and social security are fundamental for people to enjoy a high quality of life in Germany. To achieve this, there must be good educational opportunities, life-long learning and career prospects. These are core elements of the Social Market Economy and are also important factors when it comes to meeting the skills needs and tackling the challenges of demographic change.

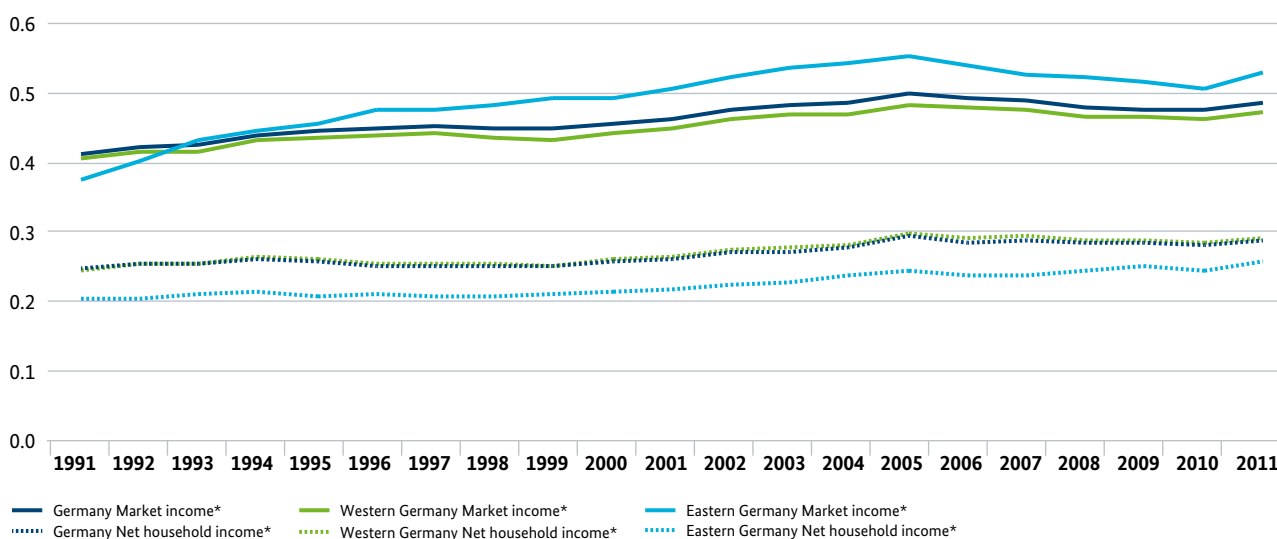
Germany has made considerable progress on the labour market. Long-term unemployment has fallen; the number

of people in jobs subject to social security contributions has risen tangibly. This good development – particularly in the international comparison – in employment in Germany underlines the importance of an open and functioning labour market, a strong social partnership and free collective bargaining as basic pillars of the Social Market Economy.

70. However, not everyone has been able to participate so far to a sufficient degree in this positive development. The Federal Government is not satisfied with insecure jobs and the slow pace at which income disparities have been reduced (cf. Diagram 2). To enable more people to participate in the good labour-market and income development, the Federal Government is advocating – not least to the social partners – appropriate pay for good work.

On the one hand, good work must be worthwhile and provide for basic needs. On the other, productivity and the wage level must be aligned so that jobs subject to social security contributions are not lost. A strong social partnership, a statutory minimum wage, collective agreements, with only one collective agreement applying in any one company, extension of wage agreements to non-contracting parties, and co-determination should all contribute towards this. At the same time, gender-specific disparities in pay should be reduced and migrants should be integrated better into the labour market.

Diagram 2: Gini coefficients for market and net household income from 1991 to 2011



*Weighted for equivalence with the current (modified) OECD scale

Source: German Council of Economic Experts, SOEP, DIW calculations

71. A key precondition for participation is good educational opportunities right from the start. Children and young people suffering from disadvantages in terms of education must be given developmental support, and the transition from school to work and the university courses must be improved further.

72. The participation of older people in working life has risen continuously in recent years. The Federal Government aims to give greater consideration to a lifetime of work and many years of paying contributions into the pension fund. It is therefore firstly enabling people with many years of employment to access their pension two years earlier without deductions after 45 years of paying in contributions, counting periods of unemployment. Secondly, the child-raising efforts of mothers and fathers whose children

were born before 1992 are to be rewarded with an additional remuneration point per child in the statutory pension system. Thirdly, probably by 2017, the Federal Government will be introducing a solidarity-based life-work pension.

73. The Federal Government is ensuring that the German social security systems can provide all the insured persons with good provision at a high level everywhere and at every time. In order to improve the situation of those in need of care and their dependants, the contribution rate to long-term care insurance to which employees and employers contribute equally will be raised by 0.3 percentage points as of 1 January 2015 at the latest. In a second step, the implementation of a new, expanded concept of people in need of care will raise the contribution by a further 0.2 percentage

Box 2: Assessing growth, prosperity and the quality of life in Germany

Economic, social and environmental challenges have resulted in an intensive debate on how a prosperous society, individual well-being and sustainable development can be appropriately assessed. 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” was not least tasked with developing a proposal for a holistic prosperity or progress indicator. As a result of its work, the Commission proposed a system of indicators.

Within this approach, a distinction is made between three fields containing a total of ten lead indicators:

- The first field of the indicator set covers the current status and development of material prosperity. The lead indicator here is the (price-adjusted) level of per-capita GDP and its (price-adjusted) growth rate. A further lead indicator addresses distribution of income. Finally, the public-sector debt ratio shows the extent to which economic output is related to viable public-sector budgets.
- The second field of the indicator system contains lead indicators on social aspects and participation. These include the employment rate, the ratio of 20-24-year-olds who have completed secondary education to age 18, the average life expectancy and the “Voice and Accountability” lead indicator to cover freedom, the rule of law and the extent of democratic participation in society.
- The third field, covering ecology, embraces the lead indicators of greenhouse gas emissions, nitrogen surplus and the bird index as yardsticks for the development of diversity of species.

The German Council of Economic Experts addresses some of the Study Commission’s indicators in its 2013/14 Annual Report. For example, in the “Material Prosperity” field, it looks at GDP, public-sector debt and income distribution. The Council finds that there was a moderate increase in income disparities between 1991 and 2011, reaching a high-point in 2005; the fact that market income disparities were recently lower than in 2005 is, say the Council, largely due to the improved situation on the labour market. At the same time, it notes that the prospects of promotion are less good than elsewhere in the world (GCEE Annual Report Items 676 ff.). With regard to education, the Council stresses the special importance of early education as a way to boost individual development opportunities in society (GCEE Annual Report Item 691).

points. The contribution rate to pension insurance will be kept at 18.9%, and the general contribution toward health insurance, to which employees and employers contribute equally, will be kept at 14.6%.

Sustainably safeguarding and improving prosperity, cohesion and quality of life

74. There are many aspects to prosperity, social cohesion and quality of life. The Federal Government therefore takes a comprehensive view of them, oriented to the principles of the Social Market Economy, social progress and sustainable development. The Federal Government will launch a dialogue with the citizens about their understanding of quality of life. A broad spectrum of expertises and indicator systems will be used, as not least suggested by the *Bundestag's* Study Commission on "Growth, prosperity, quality of life – ways to sustainable economic activity and social progress in the Social Market Economy" and the German Council of Economic Experts (cf. Box 2). On this basis, the Federal Government also aims to develop a system of indicators and reporting on quality of life in Germany.

75. In the light of the central challenges of the present day – of demographic change, internationalisation, digitalisation, climate change and the growing competition for natural resources – the Federal Government intends to develop a new economic and growth policy strategy. For this reason, the Federal Government intends to work with the German Council of Economic Experts to review the 1967 Stability and Growth Act in terms of these new challenges.

76. Sound budgets, investment in education and infrastructure, a high level of competitiveness plus good employment opportunities and reliable social security systems are vital preconditions which determine prosperity, cohesion and quality of life for people in Germany. The Federal Government will strengthen the principles of the Social Market Economy in a social dialogue and in social partnership in order to attain these objectives.

Making a success of the energy reforms

77. The Federal Government regards the phase-out of nuclear power as a right and necessary step to protect people from the great risks and subsequent burdens. The last nuclear power plant in Germany will be decommissioned

in 2022 at the latest. The fundamental restructuring of the energy supply towards a situation where most of it is supplied from renewable sources, and towards higher energy efficiency ("*Energiewende*"), is a central project for the Federal Government. The energy reforms are an essential contribution towards tackling climate change. Both are to become driving forces for the sustainable prosperity model of the future. A successful *Energiewende* in Germany can become a model for other industrial countries. The implementation of the energy reforms is oriented towards the equal objectives of climate and environmental compatibility, security of supply and affordability. As the policies are further being implemented, greater attention must be paid to cost-efficiency, economic efficiency, the ability to plan for the future, and reliability.

78. For this reason, the Federal Government will continue the development towards an energy supply without nuclear power, with higher energy efficiency and a constantly growing proportion of renewables in a resolute and systematic manner. The Federal Government's principle is that the promotion of renewable energy sources should serve to introduce them to the market. The revision of the Renewable Energy Sources Act is intended to boost the proportion of renewables in electricity generation to 40-45 % by 2025 and to 55-60 % by 2035, whilst ensuring that energy remains secure and affordable for households and businesses. A major aim here is to interrupt the existing cost dynamics of the Act and thus to limit the rise in electricity prices for consumers. The Federal Government will therefore rapidly reform the Renewable Energy Sources Act.

79. The exemptions from the Act for energy-intensive industrial companies facing international competition continue to be of extraordinary significance for Germany's industrial structure, and are vital in terms of potential for innovations in the manufacturing sector and of high-quality jobs. In order to safeguard the international competitiveness of Germany's industry, the Federal Government will retain the special equalisation scheme. It will review the scheme on the basis of objective and transparent criteria, and will develop it further in conformity with European law.

80. In order to safeguard the conventional generation capacities which will continue to be needed for the foreseeable future on a long-term basis, the Federal Government will develop in the medium term a competition-based, technology-neutral, cost-efficient capacity mechanism

which is compatible with European law. This will include the demand side.

81. The Federal Government will further strengthen the central role of energy efficiency as a second pillar of the energy reforms. To this end, greater weight must be given to cutting energy consumption based on higher energy efficiency. The policy of an increase in energy efficiency via a mix of “challenging and promoting”, standards, information and incentives will be continued in 2014 in a National Action Plan for Energy Efficiency, to be reviewed by annual monitoring.

Solidarity and individual responsibility in the interest of a stable Europe

82. The crisis in the eurozone has been caused by a variety of factors. They range from excessive borrowing by certain European countries to a lack of competitiveness, economic imbalances and design faults in the European Economic and Monetary Union, and undesirable developments on the financial markets.

83. It remains necessary to keep correcting the structural causes to the crisis. The Federal Government therefore calls for the strict, sustainable consolidation of public-sector budgets and the reduction in public and private debt to be linked in a socially balanced and macroeconomically reasonable fashion with sustainable forward-looking investment in growth and jobs. Further structural reforms are needed in the member states, but the same is true of investment in trans-European networks and infrastructure, in education, research and development.

84. Mastering the crisis includes the need to tackle excessive youth unemployment and to strengthen Europe’s social dimension. For this reason, the Federal Government will call for the Compact for Growth and Jobs adopted in summer 2012 to be vigorously implemented.

85. If confidence in a credibly sustainable fiscal policy on the part of the member states is to be restored, it is crucial to apply the Stability and Growth Pact properly. This confidence is the foundation for a lastingly stable common currency, and will also strengthen the foundations for growth.

86. Together with the European partners, the Federal Government aims to reduce economic imbalances whilst complying with the rules of the reformed Stability and Growth Pact.

Germany will contribute to this through its domestic dynamism with a further rise in employment, the introduction of a statutory minimum wage, the orientation of temporary agency work to its core functions, appropriate policies for responsible collective bargaining and the strengthening of investment. Stronger domestic demand in Germany can provide a stimulus for other member states. It is vital that countries whose current accounts record or recently recorded high deficits maintain their efforts for structural reforms, e.g. on the labour and product markets.

All of this will help to reduce the German current account surplus and to lower the deficits of other countries.

87. The new and improved procedures to co-ordinate economic and fiscal policy must be properly applied. National and European efforts must go hand in hand. Germany continues to be willing to provide solidarity-based support in the context of aid programmes and technical assistance in order to make reform policies possible in the recipient countries and to stabilise the eurozone. Aid loans from European bail-out programmes must however be granted only as a last resort, when the stability of the eurozone as a whole is imperilled.

Rules for the financial markets

88. A further basic condition for growth in Europe is functioning, stable and competitive financial markets. The service function of the financial sector for the real economy must take precedence over speculative business. The Federal Government is therefore following the G20 principle: no financial market, no financial product and no financial market player may be left without appropriate regulation in future. Actions and liability must be brought back together, and taxpayers should not have to cover the risks of the financial sector any more. For this reason, the Federal Government will work actively to ensure that the proposals by the European group of experts around Erkki Liikanen to restrict risky transactions, to introduce lending ceilings for real estate loans, and to make a stricter separation between investment and retail banking, are implemented at European level. Appropriate regulation also means that possibilities to get around rules – particularly in the shadow banking sector – will be reduced, the transparency of financial instruments increased, and the consumers given better protection in the financial sector.

89. Banks must be able to act in the single European market without endangering the stability of the financial markets.

The European banking union will further strengthen the foundations for this. The Federal Government wishes to see viable mechanisms to supervise, restructure and if necessary resolve banks at European level as well. The banking supervision by the ECB and the single resolution mechanism must work from a single set of rules so that they can carry out their tasks effectively. A clear separation of the two tasks must prevent conflicts of interest between banking supervision and monetary policy at the ECB.

90. With regard to the tackling of the euro crisis, it is vital that the mutual interdependence between private debt of banks and public debt of states is reduced. The rules for banks and financial markets must therefore be shaped in such a way that financial market players can no longer imperil the prosperity of states and societies.

91. The new Bank Recovery and Resolution Directive will establish a clear cascade of liability for losses by banks: in order to protect the taxpayer, liability for banks in difficulty will first be borne by those who participate in the potential profits: the owners and creditors of the banks. The Federal Government also aims in the context of the single European resolution mechanism to establish a strict cascade of liability and an efficient decision-making mechanism. Furthermore, a European resolution fund should be set up, funded by nationally imposed bank levies, the level of which will depend on the size and risk profile of the banks. Recourse to the taxpayer should be avoided; member states must remain in charge of their own budgets.

92. The establishment of an adequately equipped European resolution fund will take up to ten years. The Federal Government is therefore in favour of an effective transition regime which provides the right incentives. This means, firstly, the immediate implementation of the liability cascade for banks; secondly, if necessary, initially the use of the national sections of the EU resolution fund financed by the banks of the respective member state; thirdly measures in the responsibility of a member state – states must not be relieved of their obligation to cover old debt. Where this means that a member state would encounter difficulties, support from the ESM can be provided in the context of the existing procedures. A direct recapitalisation of the banks is only possible if all other means which take precedence have first been exhausted, the financial stability of the eurozone as a whole and of its member states cannot be otherwise ensured, and an indirect ESM bank programme is not possible in view of the viability of the debt. Against this background, Germany stated for the minutes

at the European Council on 19-20 December 2013 regarding a single resolution mechanism that, within the 10-year building phase, bridging finance will be available either from national sources or the ESM in line with the existing procedures. This will not require any alterations to the ESM Treaty.

B. Shaping sound public finances

93. The Federal Government's sound and pro-growth fiscal policy creates important preconditions for a stable currency, growth and secure jobs. It ensures that tomorrow's generations will not be overburdened by today's borrowing, and thus strengthens people's confidence in their possibilities to participate and in the state's ability to act.

94. The Federal Government therefore aims to stop new borrowing and to lastingly reduce the debt ratio. For this to happen, it is vital to continue the policy of budget consolidation.

Continuing sustainable and pro-growth fiscal consolidation

95. Germany is continuing its successful policy of fiscal consolidation (cf. Diagram 3). In 2013, the state achieved a close-to-balance budget for the second time in succession. The total state financing balance amounts to -0.1 % of GDP in 2013. This easily complied with the medium-term budgetary target of a maximum permissible structural deficit of -0.5 % of GDP. In the current year, the public-sector budget will again be close-to-balance and there will be a slight structural surplus. All the fiscal policy commitments undertaken at national, European and international level are thus met.

96. The federal budget is playing a major role in the positive development of the overall public finances. Guided by clear budgetary principles, the Federal Government will continue the consolidation of the federal budget; for example, calculated across the entire period of legislation, growth in spending is not to exceed GDP growth if possible (cf. Box 3). This clearly meets the aim of sustainability. For this reason, the Federal Government will review more strictly whether measures are sustainable in the context of its subsidies report.

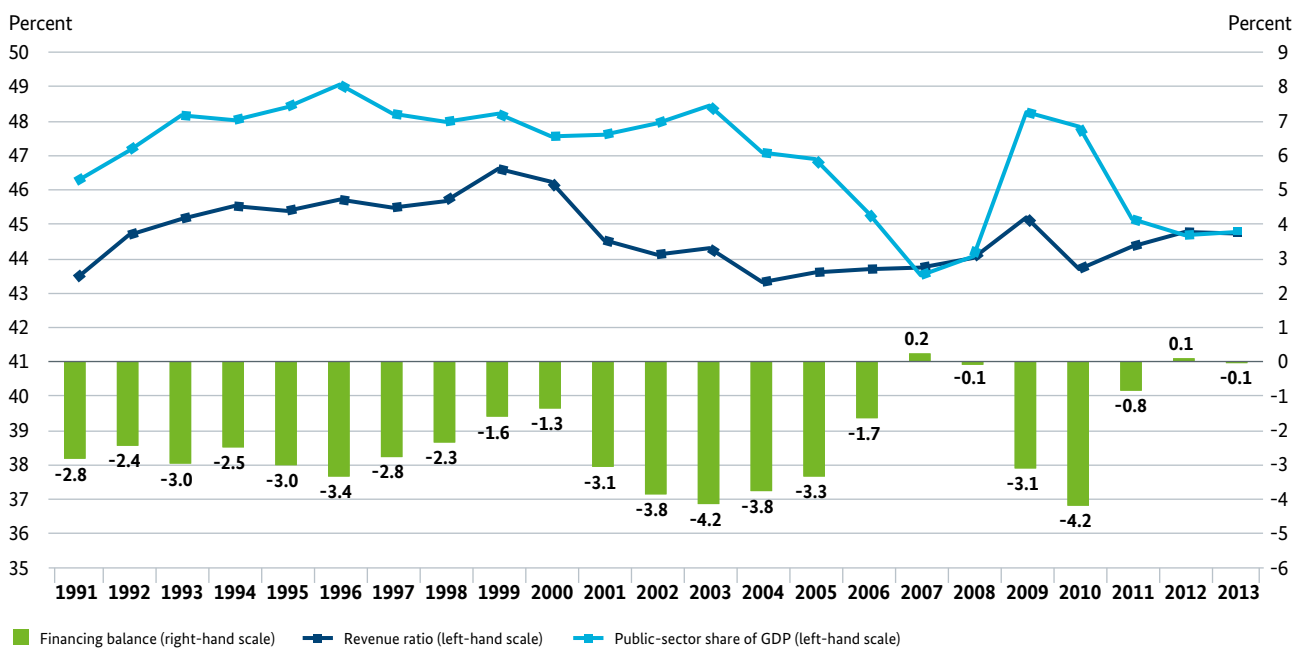
The Federal Government is complying with the requirements of the debt rule. The Federal Government will shape revenues and expenditures in such a way that the budget is structurally balanced this year and the federal budget will be set up without net new borrowing from next year on. At the same time, the Federal Government will set clear priorities on the spending side and strengthen investment in education, research and infrastructure (cf. Chapters C, D and E). In this way, the Federal Government is making a major contribution towards the planned reduction in the overall national debt rate to below 70 % of GDP by the end of 2017 and to below 60 % of GDP within ten years.

97. However, the German Council of Economic Experts criticises the fact that the success achieved by the Federal Government in terms of fiscal consolidation is not being backed by a reduction in financial assistance and tax concessions (GCEE Annual Report Items 538 ff.). The Federal Government also takes the view that further efforts are needed in order to ensure sound state finances on a lasting basis. The aim of setting up federal budgets from 2015 without net new borrowing creates a safety gap in terms of compliance with the debt rule, as called for by the Council (cf. GCEE Annual Report Item 544).

98. Overall, German tax law is modern and competitive. However, tax simplification remains an ever-present task. Here, the Federal Government aims to proceed step by step and particularly to take advantage of the technical possibilities offered by modern data processing and to expand online communication between citizens and the fiscal administration.

99. The appropriate further development of tax law also impacts on the competitiveness of German commerce. In corporate taxation, the Federal Government will therefore focus on developing aspects of tax law and taking account of the particular needs of small and medium-sized enterprises. In the field of income and corporation tax law, profits of non-incorporated companies and corporations are treated differently. However, current law already gives profits retained in non-incorporated companies preferential tax treatment – under Section 34a of the Income Tax Act. This aims to ensure neutral treatment in terms of the burden imposed on non-incorporated companies and corporations. In order to provide incentives for SMEs in particular to improve their equity base, the Federal Government will nevertheless review the rules on retained profits for sole proprietorships.

Diagram 3: Expenditure, revenues and Maastricht financing balance for the state (in percent of GDP)



1995: Excluding transfers of assets due to the assumption of the debts of the Treuhandanstalt and the GDR housing companies. Including this effect, the total public-sector deficit would be 9.5 % of GDP.

2000: Excluding UMTS revenues. Including this effect, the public-sector budget generated a surplus of 1.1 % of GDP.

Source: Federal Ministry of Finance

Further to this, the Federal Government aims to develop tax procedural law further towards a self-assessment procedure, starting with corporation tax.

100. The inheritance (gift) tax, which will be continued by the Federal Government, should not imperil the handover of companies to the next generation in future either. An inheritance (gift) tax which is constitutional and pro-SME is therefore needed. As it currently stands, inheritance tax permits companies to be handed to the next generation and protects jobs. It remains available to the *Länder* as an important source of income.

101. The land tax will be modernised in the near future whilst retaining the right for municipalities to set the tax rates. The reform will aim to retain the land tax as a reliable source of municipal income. For this reason, it will be desirable to have early agreement and an initiative from the *Länder*.

102. Fair tax legislation must be focused on ability to pay and must ensure that no-one can avoid his obligation to pay taxes at the expense of society in general. For this reason, the Federal Government aims to restrict tax flight and tax avoidance, particularly via the cross-border shifting of profits by international companies. Here, it advocates comprehensive transparency between tax administrations, it

opposes harmful tax competition, and calls for better co-ordination of nationally oriented tax regimes. The latter point aims to prevent companies from having untaxed income or a double deduction of operational expenses.

To this end, the Federal Government is working actively with its European and international partners on the OECD's Base Erosion and Profit Shifting (BEPS) initiative. If it proves impossible to attain the objectives in the context of the G20/OECD-BEPS initiative by 2015, the Federal Government will adopt national measures.

103. The Federal Government supports the development of the global standard for the automatic sharing of information about financial accounts, which is currently being co-ordinated at OECD level. This should be established as an international standard.

Federal, *Länder* and municipal level: capable of action

104. The current rules on fiscal equalisation – the Standards Act and the Fiscal Equalisation Act – expire as of 31 December 2019. They also regulate the distribution of the funding from Solidarity Pact II.

Box 3: Budgetary principles for the Federal Government in the coming years

- Calculated across the entire period of legislation, the growth in spending should not exceed GDP growth if possible.
- The top-down procedure for the compilation of the budget has proved its worth; it is supplemented by an in-depth analysis of the revenue and expenditure side of the budget prior to the decision on key figures for certain pre-selected policy fields. This means that the procedure to establish the budget is more substance-oriented and impact-oriented.
- The projects designated “priority measures” in the Coalition Agreement will definitely be implemented by the Federal Government. All measures of up to €10m agreed in the Coalition Agreement will be financed by the respective ministries on their own responsibility within their individual budgets. Apart from this, the principle of direct, complete and lasting counter-financing applies within the same policy field.
- All measures with a fiscal impact will be reviewed in terms of their economic viability, all the spending will be reviewed in terms of its need.
- All subsidies will be constantly reviewed in line with the subsidy policy guidelines (cf. 2007 Annual Economic Report).
- The federal budget will be more oriented towards investment.

105. For this reason, the Federal-*Länder* fiscal relations – including the nationwide fiscal equalisation – must be newly regulated by the end of 2019 at the latest. The basic policies for this need to be put in place during this period of legislation. To this end, the Federal Government will engage in discussions with the *Länder*. In parallel to this, a Commission will be established consisting of representatives of the Federation and the *Länder* and including representatives of the municipalities. By the middle of the period of legislation, the Commission is to present proposals on the following dossiers:

- European fiscal compact,
- establishment of preconditions for fiscal consolidation and permanent compliance with the new debt rule in the *Länder* budgets,
- distribution of revenues and expenditure and the assumption of responsibility at the various federal levels,
- reform of the *Länder* fiscal equalisation system,
- existing debt, financing modalities and the burden of interest payments, and
- the future of the solidarity surcharge.

106. Here, the crucial point for the Federal Government is that each level – Federation, *Länder*, municipalities – remains able to function and to exercise responsibility for its policies as it tackles its tasks. In the past, the Federal Government has already done much to improve the finances and thus the ability to act of the *Länder* and thus ultimately also of the municipalities. The national system of fiscal equalisation makes a substantial contribution towards funding the fiscally weak *Länder* and municipalities. Part of the nationwide fiscal equalisation is Basket I of Solidarity Pact II, in which the Federal Government gives particular support to the eastern German *Länder* up to 2019. Also, the Federal Government is relieving the municipalities of the cost of basic provision for jobseekers by stipulating the rate for the Federal share of the spending on accommodation and heating; the net spending of the municipalities for the current calendar year on basic provision for old people and those with reduced earning capacity will actually be fully reimbursed from 2014. The *Entflechtungsmittel* funds have been continued at their current level until they finally expire in 2019. The Federal Govern-

ment is also participating in the financing of childcare for under-3-year-olds. The entry into force of a Federal Benefits Act for People with Disabilities (Federal Participation Act) will also enable the Federal Government to relieve the burden of reintegration assistance borne by the municipalities; this is not intended to result in new dynamism in expenditure. Further to this, one-third of the additional financial scope for the Federation in this period of legislation is to be used to relieve the burden on the *Länder* budgets.

107. The Federal-*Länder* Commission, which is yet to be established, will consider whether and how the special support programmes for the eastern German *Länder* can be transferred into a nationwide system for structurally weak regions. The Joint Federal-*Länder* Scheme “Improving the regional economic structure” is to serve as a starting point for this.

National and European regional and structural policy

108. The Joint Federal-*Länder* Scheme “Improving the regional economic structure” is the central instrument for national regional economic promotion. It helps to boost competitiveness in structurally weak regions.

109. In 2013, the European Commission adopted the new guidelines for regional aid in 2014 to 2020. The area eligible for the Joint Scheme was redefined on this basis. The new area takes balanced and objective account of the different regional economic challenges. For example, the new *Länder* – albeit still structurally weak – have been able to achieve tangible economic successes. As a consequence, they are losing the right to receive the maximum level of assistance, but will remain designated in their entirety as an assisted area with state aid status in line with European regional state aid rules.

The funding available for the Joint Scheme is to be raised back to the higher level of 2009 by way of an internal ministerial budgetary reallocation, particularly since the tax-based investment allowance expired at the end of 2013 and the EU structural funding is declining. The distribution of the funding will take account of the continuing need for the new *Länder* to catch up. Also, the distribution of the funding will be thoroughly oriented to the specific structural weakness of the regions.

110. The agreement on the Multiannual Financial Framework and the legal framework for EU cohesion policy for the 2014-2020 period means that Europe's regions will have more than €366bn available for this period. At the same time, EU structural policy has been modernised: funding is being more concentrated on themes, more oriented to results and more closely integrated with economic policy co-ordination.

111. The European Regional Development Fund (ERDF) and the European Social Fund (ESF) will provide approx. €19bn for German regions between 2014 and 2020. Of this, €9.8bn will go to regions in transition (new *Länder* without Leipzig plus Lüneburg), and €8.5bn to more developed regions. Thanks to a safety net and special payments, the new *Länder* will receive approximately 64 % of the previous funding level in future.

112. The Federal Government will clearly orient the funding of European cohesion and structural policy towards sustainable growth, jobs and higher competitiveness. The Federal Government wishes to see the partnership agreement – the umbrella strategy for the implementation of the structural policy targets, which for the first time embraces all the European structural and investment funds (ESIFs) – swiftly concluded with the European Commission and a rapid adoption of the operational programmes; in these, the Federal Government and the *Länder* stipulate the specific measures that can be funded from the ESIFs.

C. Promoting good work and social security

113. The Federal Government wants to align full employment, good work and social security. Demographic change, a higher percentage of older workers, skilled labour shortages and the internationalisation of the labour market present a challenge to Germany. Skills development and integration into the modern labour market are key to the future of the country. The Federal Government will create the framework to ensure that all job-seekers have a better chance at obtaining well-paid employment. High-quality education, training and CVET, competitiveness, innovative potential and, not least, the necessary openness and flexibility of the labour market – including the integration of migrants – are central elements of this policy. The Federal Government's labour market policy will chart the course for more and better paid employment and for a stronger social partnership between employers and trade unions.

Modern labour legislation

114. The German labour market has performed well in recent years, with employment at a record high. The "German Model", involving a comparatively strong role played by social partners, collective bargaining agreements and a flexibility agreed between management and labour, proved effective particularly under the pressure of the international financial market crisis. Specific reforms made to this model in the previous decade also contributed to this success. The Federal Government agrees with the German Council of Economic Experts that the positive impact of the reforms could only be fully felt after some time and that the resilience of the German labour market only became apparent during the major economic crisis of recent years (cf. GCEE Annual Report, Item 500). The labour market is currently very receptive to new workers – rarely has it been more so – and is opening up opportunities for people who were previously unable to participate in this positive development. At the same time, however, the low-wage sector has expanded to a problematic degree since the 1990s. The Federal Government will help promote the principle of "equal pay for equal work" and for this reason intends to adapt the policy environment to ensure secure and good work with fair pay, as well as a strong social partnership between employers and trade unions.

Introducing a statutory minimum wage, facilitating the extension of wage agreements to non-contracting parties

115. On the one hand, good work must be worthwhile and provide for basic needs. On the other, productivity and the wage level must be aligned so that jobs subject to social security contributions are not lost. Social partners have traditionally established this balance through collective wage agreements. However, diminishing coverage of workers by collective agreements has resulted in more and more areas that are not protected by pay deals. A generally binding statutory minimum wage is intended to ensure an appropriate level of minimum protection throughout Germany.

116. On the basis of the Posted Workers Act and the Temporary Employment Act, the Federal Government, with the significant involvement of the social partners, set sector-specific minimum wages for different areas of industry in past legislative periods. As these have proved effective, the Federal Government will increase the scope of application

of the Posted Workers Act so that it is open to all industries, and not solely the industries already cited in the Act.

117. Further to this, the Federal Government will introduce a general statutory gross minimum wage of €8.50 per hour on 1 January 2015. At industry level, divergences from the minimum wage – arising from collective pay agreements of representative bargaining partners – are permitted up until 31 December 2016. The statutory minimum wage will apply across Germany without restriction from 1 January 2017 onwards. Collective wage agreements in place at the time coalition negotiations were concluded will continue to apply if the statutory minimum wage level that applies on 31 December 2016 is reached by that date. The blanket statutory minimum wage will apply from 1 January 2017 onwards for all collective wage agreements that fail to reach the minimum wage level by 31 December 2016. To ensure that continuing collective wage agreements or time-limited new wage agreements, in which the applicable minimum wage level is reached by 1 January 2017 at the latest, are safeguarded under European law, the industry must be incorporated into the Posted Workers Act before the term of validity of the bargaining agreements ends. The general minimum wage level will be examined for the first time by a board of bargaining partners, with the assistance of economic experts, by 10 June 2017, tweaked where necessary and set as generally binding for the entire country by ordinance. This will take effect from 1 January 2018 onwards. Following this, the board will decide at regular intervals on the extent to which the general minimum wage needs to be adjusted. The Federal Government will prepare the Minimum Wage Act following talks with employers and employees of all industries and take any issues, such as seasonal work, for instance, into consideration when implementing the Act.

The Federal Government will shape the minimum wage in such a way that, if possible, no jobs at all are lost. Further to this, the minimum wage also strengthens broad-based consumer demand.

118. The Federal Government will make it easier to extend wage contracts to non-contracting parties. In future, to make collective agreements under the Collective Agreements Act generally binding it will not be necessary for employers bound by the agreement to employ at least 50% of the workers falling within the scope of the agreement. Particular public interest will suffice in the future. Furthermore, in future only the labour courts will have the power to examine an extension of collective agreements; the same

is to apply for ordinances under the Posted Workers Act and the Temporary Employment Act.

119. With regard to the awarding of public contracts, the Federal Government will examine the introduction of wage compliance rules – whilst observing European law – by which the contractors are obliged to adhere to generally applicable collective bargaining agreements.

120. In its ruling of 7 July 2010, the Federal Labour Court abandoned the principle of only one collective agreement applying in any one company. To properly manage multiple wage agreements and multiple bargaining partners, the principle of one wage agreement per company should be legally regulated based on the principle of majority rule. Concerns under constitutional law will be considered in accompanying procedural legislation.

An orderly labour market

121. The Federal Government will focus the system of temporary workers on its core functions. To this end, a maximum transfer period of 18 months is defined in the Temporary Employment Act. Different solutions can be agreed in a collective agreement between the bargaining parties in the specific sector, or on the basis of such a collective agreement in a works and services agreement, whilst taking the legitimate interests of permanent staff into consideration. In terms of pay, temporary workers will in future be put on a par with permanent staff after 9 months at the very latest. It will not be permitted to deploy temporary workers to break a strike. It is also made clear that temporary workers must be taken into consideration with regard to threshold numbers under works constitution law provided that this does not run counter to the objective of the particular rule.

122. Further to this, the Federal Government will prevent the abuse of work and services contracts. For this, it is necessary to concentrate and facilitate the inspection work performed by the auditing and supervisory bodies of the financial control section of the Federal Customs Administration, make it more effective from an organisational perspective and provide sufficient staff. The key definition criteria between the orderly and abusive deployment of external staff, as derived from the ruling, are regulated by law. The right of the works council to information and instruction is guaranteed and specified in detail. Even if a temporary hire permit has been granted, the would-be

contractor and his client may not be in a better position than those who lease labour without a permit.

123. Individuals working part-time for family reasons should be able to resume their previous work times. A right to temporary part-time work (right to return) is created for this purpose.

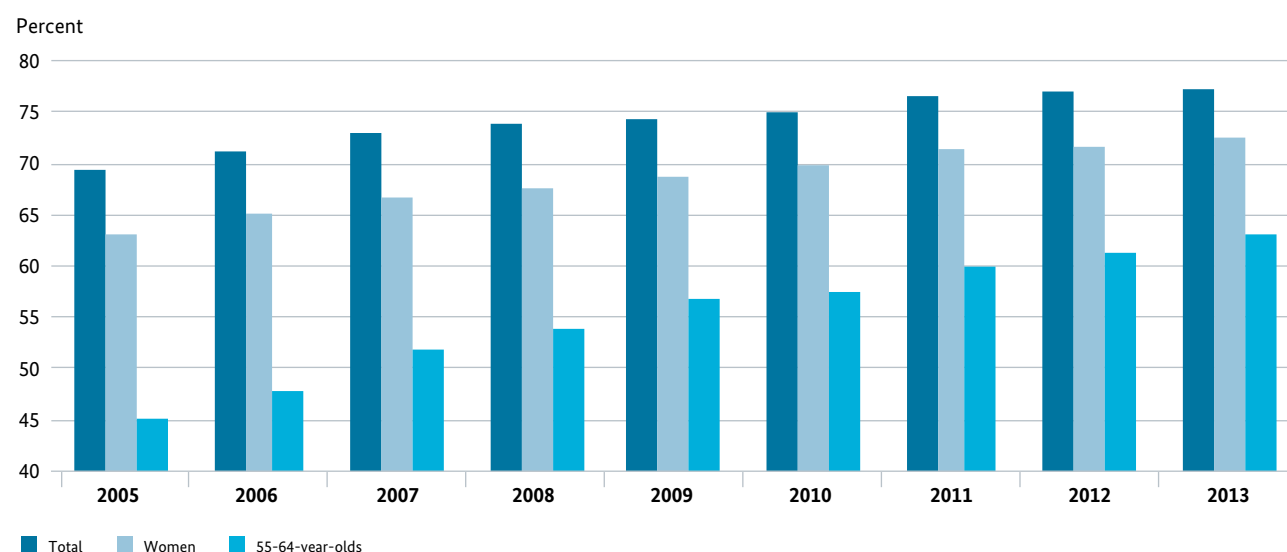
Securing the skilled labour base

124. Demographic change directly affects the supply of labour and therefore both the performance of the German economy and the effectiveness of the social systems. Meeting the demand for skilled labour – particularly in the mid-market – whilst opening up better employment opportunities for individuals is therefore a major task for the whole of society. The Federal Government will primarily focus on people in Germany and will advance their degree of integration into the labour market (cf. Diagram 2). But advantage should also be taken of the opportunities to attract skilled workers from the global labour market to come and work in Germany. These are the approaches of the Federal Government's Skilled Workers Strategy (cf. 2013 Annual Economic Report, Item 106 and Item 141). The aim is to continue the effective mobilisation and awareness-raising campaign that promotes an environment in Germany that is open to immigration, and to professionalise

the networks for securing the supply of skilled labour. Furthermore, the Federal Government supports the efforts of companies to implement a forward-looking human resources policy, also with the goal of retaining employees. In particular, however, the onus is on business enterprises to step up their efforts to create appropriate working conditions for older workers and a working environment that meets age-related needs.

125. There has been an overall improvement in the situation for young people in the training market in recent years. Nevertheless, many young people still experience difficulties in finding a training place. Therefore, by introducing specific career entry support programmes and strengthening the preventive approach of career counselling and career guidance, the Federal Government wants to assist lower-achieving young people in making a successful transition from school to vocational training and a working life. Young adults can return to and complete training through continuing vocational education and training programmes. In tandem with the social partners and the Länder, the Federal Government is keen to further develop the "National Pact to Promote Training and Young Skilled Workers" into an alliance for initial and continuing training. The Federal Government will continue to promote the integration of migrants into the labour market, and new opportunities are to be created for low-skilled individuals and the long-term unemployed. Further to

Diagram 4: Employment rates in Germany



Data: Q2, age structure: Total/Women: 20-64-year-olds

Source: Eurostat, workforce surveys

this, employment promotion should focus more specifically on the needs of women, whose careers are often interrupted for family reasons, and support their return to employment that is subject to social security contributions and guarantees them a livelihood. Furthermore, employability should also be strengthened by lifelong learning.

126. Seeking to fill the skills gap in the health-care sector brought about by demographic change, the Federal Government intends to make jobs in the health care and nursing sector more appealing. The aim, therefore, is to enable the nationwide deployment of qualified non-medical healthcare professionals who provide delegated medical services, and ensure they are paid in line with the services provided. By reforming nursing training programmes, the Federal Government also seeks to make it easier for individuals to switch between the individual professions in the care sector. A new Caring Professions Act aims to create a uniform occupational profile consisting of a common basic training programme followed by specialisation for elder care, nursing care and paediatric nursing, and further develop the training programme for care professions in a way that meets future needs.

127. The Federal Government wishes to work in partnership with the business community to improve equality of opportunity for women and men in companies. The aim is for highly qualified women to be able to contribute more to the success of the German economy in the future. Gender diversity is a quality characteristic of modern business enterprises and a key factor in their success. For this reason, the Federal Government wishes to see an increase in the proportion of women in managerial positions in companies. Publicly listed companies and businesses with obligations for full employee co-determination must therefore ensure that as of 2016, 30% of new appointments to their supervisory boards are women. Further to this, starting in 2015 publicly listed or co-determined companies will be obliged by law to set binding targets for increasing the share of women on executive boards, supervisory boards or in top-level management positions, disclose this information publicly and report on it in a transparent manner. In addition, the Federal Government, alongside the parties to collective bargaining, wishes to help promote the principle of “equal pay for equal and equivalent work”.

128. Employee share ownership is not only a way for workers to have an ownership interest in their company, but also a means of attracting and keeping well-qualified and motivated skilled staff. The Federal Government will examine how the legal framework can be simplified and, in par-

ticular, how regulatory requirements for banks can be clarified. Furthermore, it is also examining a more attractive model for the conversion of employees’ salary components to shareholdings.

Education: the basis for participation and integration

129. Education is the key to participation, integration and equal opportunities – core elements of the social market economy. Far from solely being a task of the state, education is the responsibility of society as a whole (cf. Item 125). Nevertheless, the state is responsible for ensuring equality of opportunity irrespective of social origin and the greatest possible breadth of opportunities for career advancement. Education should not be a privilege, but an effective lever for professional success for people from all social strata. The Federal Government will help the *Länder* to further improve the quality of day care for children and to gradually expand all-day care in childcare facilities. The Federal Government uses various instruments to support the permeability of the education system. Further to this, it also supports individuals with vocational qualifications in entering higher education and promotes better interlinkages between vocational and third-level education. In addition, the Federal Government has increased its financial commitment to the second programme phase of the Higher Education Pact 2020 – lasting through to 2015 – to roughly €7bn.

Helping to combine work and family commitments

130. High-quality childcare facilities also give individuals better opportunities to balance family and work commitments. This helps secure the skilled labour base while also promoting equal opportunities. Since 1 August 2013 children over one have a legal right to a childcare place. The Federal Government is committing a total of €5.4bn through to 2014 to the expansion of childcare facilities for children under three.

131. Families need time for one another. For this reason, the Federal Government is committed to family-friendly working conditions. It will also make the rules surrounding parental leave and parental allowance more flexible. Tax relief for single parents will be increased, with the amount graduated in future depending on the number of children the individual has. Individuals taking care of family members also need time. To make it easier to reconcile work commitments and the care of a family member, the

possibilities afforded by the Act on Care-giving Leave and the Act on Family Care Leave are being consolidated, coupled with a legal entitlement, and developed further. The 10-day leave granted to individuals who need to organise a new care situation at short notice is coupled with a wage compensation benefit similar to the child sickness allowance.

Recognising individuals' life-time work

132. People should be able to rely on the social security systems once they reach old age. To this end, the structures and benefits must be continuously adapted to changes in the working environment. The German Council of Economic Experts criticises the fact that measures demanded across all parties to reduce poverty in old age suggest there is an acute need to act, which is currently not the case (cf. GCEE Annual Report, Items 700 - 703). The Federal Government points to the fact that currently 2.7% of those aged 65 and over receive basic security benefits in old age and in the event of reduced earning capacity. In any case, old-age poverty must also be prevented in the future. The reality of many people's lives makes it necessary to take greater account of their life-time work and many years of contribution payments to the social security system.

133. The Federal Government will therefore give greater recognition to the child-raising work of the parents of children born before 1992. The German Council of Economic Experts argues that making such parents better off in the statutory pension scheme would place a further burden particularly on younger people who have already been adversely affected by the pension reforms of the past. However, taking considerations of fairness into account, the Federal Government is of the opinion that the parents of children born before 1992 had less favourable conditions than today for reconciling child-rearing with work commitments, and wants to continue to uphold intergenerational solidarity in the future.

134. Raising the general retirement age to 67 is inevitable if we are to preserve the stability of the pension insurance system. The Federal Government intentionally opted to gradually raise the retirement age to 67, and against rule-based adjustments to the retirement age as recommended by the German Council of Economic Experts, such as coupling pensions to life expectancy. With particular regard for the contribution of older workers, the Federal Government allows those who have been insured for a very long time to receive their pensions two years earlier without any pen-

sion deductions. Further to this, the Federal Government will appreciably improve the pension entitlements of individuals with a reduced earning capacity, who rely particularly on the solidarity of the insured community. In addition, a life-work pension is expected to be introduced by 2017. Based on the principle of solidarity, this top-up pension is geared to low-earners who have been insured under the statutory pension system for many years and who can only expect a retirement income of under roughly €850 per month on account of the low wages they previously earned.

135. At 18.9%, the rate of contribution to the general pension insurance system is at the lowest level ever since the mid-1990s (cf. Diagram 3). To guarantee the continuity, stability and financial planning security of the statutory pension insurance system, the rate of contribution will be set by law at 18.9% for 2014 and the reduction in the rate of contribution calculated for January 1 2014 will not be implemented.

136. The timetable for the full convergence of the pension values in the east and west will be specified in a final act extending the pension legislation to the acceding territories, which may involve an intermediate step if necessary.

By 1 July 2016 the Federal Government will examine the extent to which the pensions have converged and use the findings as the basis for decisions on whether partial convergence will be necessary with effect from 2017.

Increasing quality and efficiency in the health care system

137. With the introduction of a quality promotion programme, the Federal Government wishes to improve the level of in-patient care. The aim is to give greater attention to divergent hospital quality when planning and remunerating hospitals. A new quality institute will be set up and give patients a better overview of the different levels of quality between individual hospitals.

138. The legal framework conditions for the various ways of agreeing integrated and selective forms of health care are being harmonised and obstacles removed. In addition, the health insurance funds are given the option of concluding quality agreements with individual hospitals. This ties in with demands of the German Council of Economic Experts for more competition for contracts (cf. GCEE Annual Report, Item 724). Furthermore, a €300m innova-

tion fund is created to promote cross-sectoral forms of health care and for health care research.

139. The Federal Government will stipulate in law that the general contribution rate, financed equally by employers and employees, stands at 14.6%. In future, the statutory health funds will levy the fund-specific supplementary premium, which will include the existing special contribution of 0.9%, as a percentage of the assessable income. In this way, the sharing of the burden of supplementary premiums will be organised within the statutory health insurance system in future, thereby eliminating the need for tax-financed social compensation. The employer's contribution rate of 7.3%, as set by the Statutory Health Insurance Funding Act, will remain unchanged.

Ensuring the financial sustainability of long-term care insurance

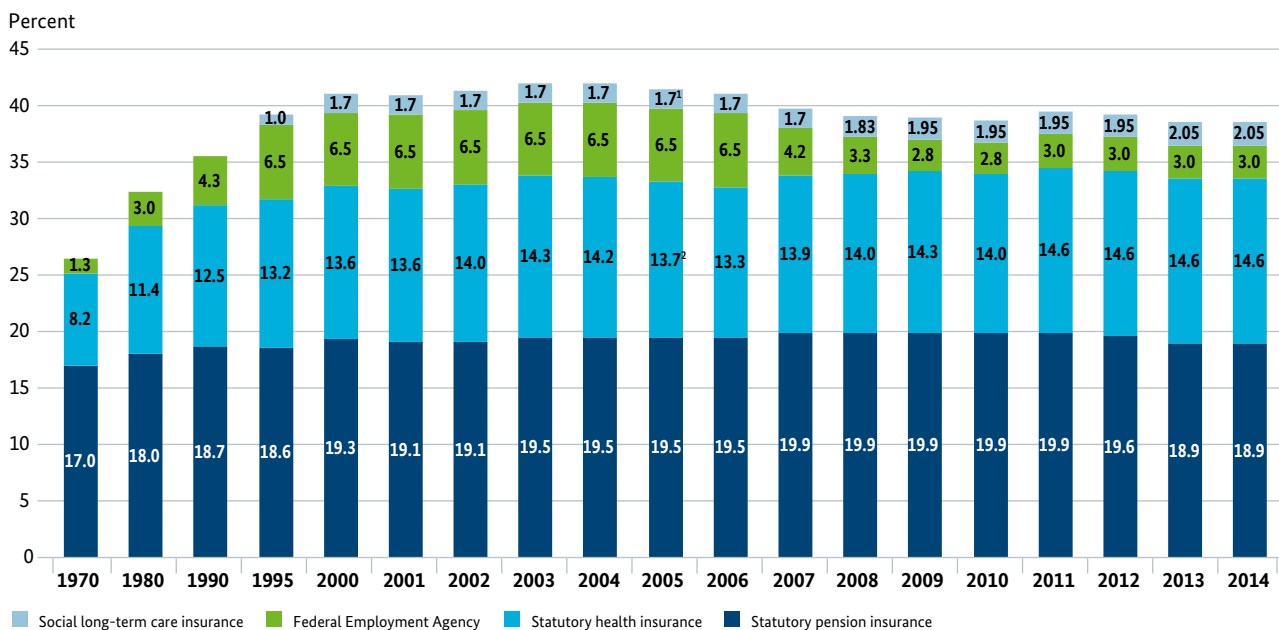
140. To better address the needs of individuals in need of care and their families, the Federal Government will extend care services and introduce a new definition of the concept of people in need of long-term care. The long-term care

insurance contributions co-financed by employers and employees will be increased by 0.3 percentage points as of 1 January 2015 at the latest. The sustainability of long-term care insurance will be strengthened with the creation of a new provident fund (*Vorsorgefonds*). Financing generated from the planned contribution rate increase and corresponding to 0.1 contribution rate points will be directed into this provident fund each year in order to cushion future contribution increases. In a second step, the contribution will be increased by a further 0.2 percentage points with the implementation of a new definition of need of long-term care, which is broadened particularly to include dementia disorders.

D. Investment, competition and a dynamic mid-market for a viable economy

141. With the switch to sustainable energy and the digitisation of the economy, Germany is facing its biggest technological challenges in decades. The need for modernisation in the public sector and business community is enormous, and huge investment is required. This calls for new, virtually unprecedented efforts to revitalise the German national

Diagram 5: Annual average contribution rates to welfare insurance as percentage of gross wages and salaries liable for welfare contributions



¹ Excluding the additional contribution of rate 0.25 percent paid by childless individuals since 1 January 2005

² Average annual contribution rate without considering the member-specific contribution of 0.9 percent (this specific contribution was conceived as an additional contribution rate from 1 July 2005 to 31 December 2008)

economy. Germany's strengths lie in an internationally competitive economy dominated by small and medium-sized enterprises with a modern, dynamic industrial sector at its core. Investment and competition drive innovation that taps into new markets at home and abroad. New market opportunities, in turn, encourage businesses to invest, secure employment and create new jobs, which ultimately have a positive impact on the overall dynamism of the economy given the purchasing power and domestic demand generated. A high level of public and private investment is therefore an essential engine of innovation.

Well-functioning competition limits the concentration of power and ensures that diverse consumer preferences are reflected in a wide range of products and services to suit their needs. It also forces businesses to use resources carefully as only cost-effective businesses will succeed in the market. Ultimately, dynamic sales markets are the strong demand factor of a successful economy. While Germany has good opportunities on the growing markets outside Europe, the European sales markets continue to be of central importance. The German economy needs strong exports, a strong internal economy and domestic demand driven by investment and purchasing power.

142. The social market economy requires competition and effective competition law, as well as a flexible and pro-growth environment particularly for small and medium-sized enterprises. This also includes efficient and modern procurement rules, a sound legal framework and low bureaucratic compliance costs.

143. Small and medium-sized enterprises are the heart and engine of the German economy. The “German *Mittelstand*” – the German mid-market – enjoys an excellent reputation abroad. This also applies to the German crafts industry in particular, with quality products and services and quality work from Germany a trademark of the sector. Germany will engage constructively in the European debate on an increased liberalisation of the internal market for services. Here, the Federal Government aims to ensure that the Master Craftsman's Certificate is retained and not impaired by measures for the European internal market.

144. The self-administration of the business community in the form of the chambers guarantees entrepreneurial initiative, civic engagement and familiarity with the subject matter. Self-administration must be strengthened by further increasing transparency in the performance of tasks and democratic participation, particularly in the interests of small and medium-sized enterprises.

145. In addition, the Federal Government will apply time-tested instruments to further strengthen the mid-market tourism sector as an employer and economic factor.

Refining legislation on competition

146. The Federal Government will evaluate the effects of the new rules of the eighth revision of the Act against Restraints on Competition. It will consider further steps to improve the administrative and court procedures for anti-trust violations. Furthermore, at the national and European level the Federal Government will aim to strengthen the enforcement of competition law by authorities and private parties.

147. The Federal Government will at an early stage counter any dangers to the diversity of the press which might derive from the increasing digitisation of the media. It will facilitate operational co-operation in terms of competition law between publishing companies below the editorial level. The effects on the economic independence of publishing companies and the diversity of the press must be taken into consideration in the process.

148. The Federal Government supports the concept of an integrated DB AG group. The opportunities of private rail companies in the competitive arena should be strengthened further by measures such as continued support for the infrastructure of non-federally-owned railways that is important for the rail freight network. The Federal Government will regulate the railways in a proportionate manner in order to ensure transparency and non-discriminatory market access. This also contributes to the sustainable funding of the rail infrastructure, which falls within the scope of services of general interest and will remain under the ownership of the Federal Government. The Federal Government will ensure that all profits from the government's railway infrastructure undertakings will be directed back into the infrastructure (cf. Box 1).

Implementing EU directives on public procurement

149. Three new EU directives on public procurement are expected to enter into force in February 2014. These directives concern the areas of classical public procurement, procurement by entities operating in the water, energy and transport services sectors, and the award for concessions contracts in the public works and services field. The Federal Government is committed to ensuring that central services

of general interest, such as water supply services, can be provided in a consumer-friendly and cost-effective manner by both public bodies and private enterprises. The Federal Government rejects one-sided pressure to privatise arising from legislation on competition and public procurement.

The implementation of the new EU procurement rules should be used to make procurement procedures simpler, more flexible and more user-friendly in Germany as well. At the same time, legal certainty must be increased for business enterprises and contracting authorities. The possibility to give consideration to social and ecological aspects in compliance with the economic efficiency principle should be enhanced. The expertise of the Centre of Excellence for Sustainable Procurement should be taken into consideration to implement sustainable procurement in the practice of awarding contracts.

150. Adherence to collective bargaining agreements in the award of public contracts is of paramount importance to the Federal Government. It will examine the extent to which – whilst observing European law – arrangements can be made at federal level to make the award of public contracts dependent on adherence to generally applicable collective bargaining agreements.

Towards business-friendly administration

151. Effective public administration and low compliance costs are key advantages for a business location. The Federal Government intends to further relieve individuals and the business community appreciably of the burden of unnecessary bureaucracy. It will therefore cut reporting costs further and reduce compliance costs and effort. Furthermore, the Federal Government will support projects that identify and implement specific ways to simplify processes, and make public administration more business-friendly through measures such as e-Government.

152. The process by which the expected compliance costs for every federal regulation are presented in advance is already well established. Further to this, since March 2013 the Federal Government has been trialling an evaluation process for all major new planned regulations. This process gauges the extent to which the objective and purpose of a regulation have been achieved and whether the cost/effort estimated in advance is actually correct.

Promoting a spirit of entrepreneurship: improving financing conditions, strengthening innovative potential

153. By strengthening framework conditions, promoting entrepreneurial independence and improving financing conditions for businesses, the Federal Government wishes to help unlock even more growth potential in the mid-market. Barriers impeding the financing of small and medium-sized enterprises must be reduced. Therefore, in tandem with its European partners, the Federal Government is creating the framework so that the banking sector can effectively play its role as a provider of services to the real economy. One important aspect will be to safeguard “classic” financing for small and medium-sized enterprises via savings banks, Volksbanken, co-operative banks, private banks, business promotion banks and guarantee banks. To this end, the Federal Government will, *inter alia*, engage attentively with the introduction of the new rules on capital adequacy and liquidity requirements (Basle III), (cf. Item 212).

154. Germany needs a new era of entrepreneurship. New start-ups and young businesses provide innovative services and products which advance society and create jobs. For this reason, the Federal Government will continue to give them targeted support. Furthermore, the Federal Government is also facilitating access to international growth markets for high-tech start-ups.

155. Access to traditional bank loans is often difficult for innovative start-ups and young companies. They rely on alternative sources of finance, such as venture capital, which is provided by business angels or venture capital companies. However, Germany’s venture investment rate has only remained around the European average up to now.

156. For this reason, the Federal Government aims to make the legal and tax rules for venture capital internationally competitive in a permanent dialogue with the European Commission and make Germany a more attractive fund and investment location for venture capital. The venture capital investment grant, which was set up in 2013, will be continued and developed further. Under the conditions of this grant system, private investors – notably business angels – get 20% of their investment in young innovative enterprises reimbursed. The European Venture Capital Fund Regulations entered into force in July 2013. Furthermore, the potential of new forms of funding, such as crowd investing, should be utilised and a reliable legal framework created to this end.

157. The Central SME Innovation Programme (ZIM) and the “SME-innovative” funding initiative offer easy, flexible and tailored funding for the research and development activities of small and medium-sized enterprises, and are set to be continued even after 2014.

E. Innovation and infrastructure: strengthening Germany as a place to do business

158. Innovation and infrastructure are key contributors to the further advancement of a society. A competitive innovative environment and a modern infrastructure are also central prerequisites for efficient business enterprises and overall economic growth in Germany. The Federal Government will therefore invest more in infrastructure, will improve the conditions for a digital infrastructure for the future, and will further strengthen the innovative dynamism. In doing so, it will place a priority on more investment from the public sector and better framework conditions for private investment. The goal is to achieve a total investment rate that is above the OECD average.

Towards a modern infrastructure

159. The Federal Government will substantially increase funding for the transport infrastructure. A total of €5bn of additional money will be provided for urgently needed investment in public transport infrastructure over the next four years, primarily for maintenance purposes. Furthermore, the budgetary framework will be improved in order to guarantee multi-year planning and funding security.

160. The truck toll is to be developed further to provide additional funding for the maintenance and expansion of the federal trunk road network. Also there are plans to levy an appropriate charge on the owners of cars not registered in Germany (the “vignette”). This requires an approach which conforms with European law in which domestic car owners are not subject to greater burdens than at present. Furthermore, profits from the government’s railway infrastructure undertakings will be fully re-invested in the rail infrastructure in future (cf. Box 1).

161. The Federal Government will drive forward the preparation of the new 2015–2030 Federal Transport Infrastructure Plan, incorporating intermodal transport networks, in a swift and transparent manner, and encourage public participation. A “national priority programme” is also defined

in the new 2015 Federal Transport Infrastructure Plan and the development acts. The projects defined here are to receive the majority of the funds for new construction and expansion. The Federal Government will pay strict attention to ensuring that new infrastructure projects and expansion projects are on a scale that is in line with infrastructure needs.

162. With regard to housing, the Federal Government’s policy is based on three aims: to strengthen investment activity, to revive the building of social housing, and to provide balanced backing in terms of tenant law and social policy. For this reason, in the next four years the Federal Government will make €700m in programme funding available each year for the promotion of urban development. Furthermore, the Federal Government will support the *Länder* with compensatory funding of around €518m each year through to 2019 with the expectation that the *Länder* will continue to invest the funds in the promotion of social housing. In addition, the Federal Government intends to improve the housing allowance. The allowance amount and the maximum rent level will be adapted to developments in existing rents and income.

163. Further to this, for a period of five years the Federal Government is granting the *Länder* the option of limiting a landlord’s ability to increase rents to a maximum of 10% above comparable standard rents in the local area when re-letting residential space in areas with a demonstrably tight housing market.

164. The Federal Government wishes to ensure the high-quality, nationwide provision of affordable postal services to our citizens, and remains committed to a postal universal service.

Strengthening innovative dynamism

165. With roughly 3% of the gross domestic product spent on research and development in 2012, Germany has reached the Europe 2020 goal and continues to be significantly above the EU average (cf. Diagram 6). At the same time, much remains to be done to retain our position as one of the world’s most innovative economies in the future. The Federal Government aims to keep investment in research constant at 3% of GDP. For this reason, it places a priority on pro-innovation conditions – particularly a modern quality and suitable financing tools (cf. Item (98) ff.), and creates tailor-made funding programmes. In this way,

the Federal Government is supporting exchange particularly among small and medium-sized enterprises within the framework of innovation clusters.

166. The Federal Government will continue to develop the High-Tech Strategy (cf. 2013 Annual Economic Report, Item 178f.) into a comprehensive, interdepartmental innovation strategy for Germany. Even greater focus will be placed on challenges such as demographic trends, sustainable commercial activity or the digitisation of industry and society. Big data or health care will become new priority areas of central topics such as Industry 4.0 or sustainable mobility.

167. The close interlinkage between the academic and business community is one of Germany's biggest assets. The Leading-Edge Cluster Competition and platforms such as the Industry 4.0 Platform or the City of the Future Platform are testament to a policy that pools forces and secures Germany's strong position in the global competition for innovation. The aim is to strengthen European and international research alliances and in doing so put the synergies between the Innovation Strategy and the "Horizon 2020" framework programme to more effective use.

168. In promoting electric mobility as an innovative technology in Germany, the Federal Government will continue to put its energies into the work of the National Electric

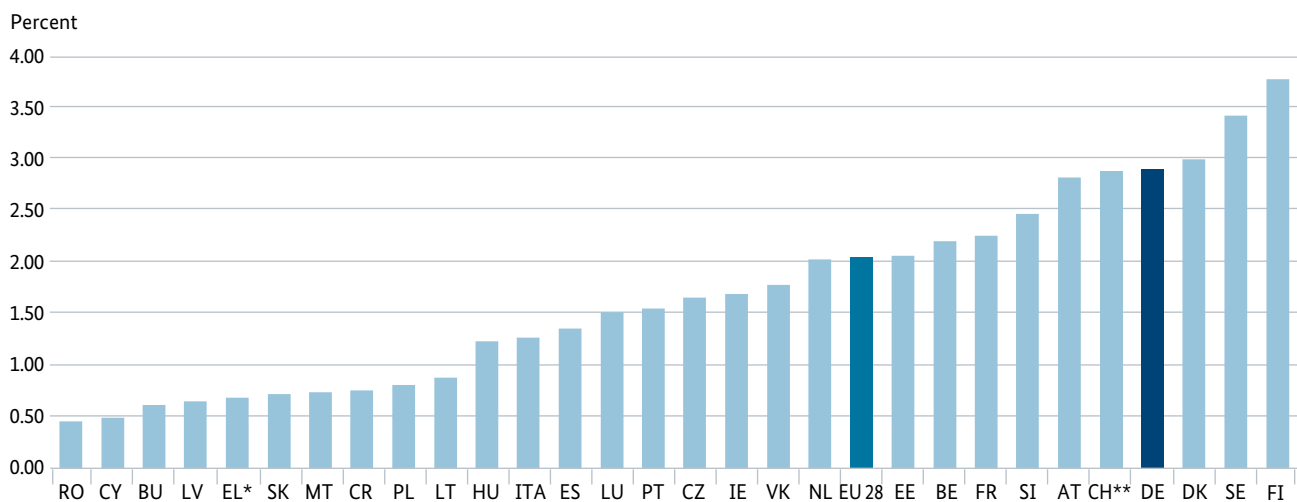
Mobility Platform (cf. 2013 Annual Economic Report, Item 192) and will further improve the general conditions for electric mobility.

A Digital Agenda for Germany

169. Digitisation is increasingly affecting all areas of business, the work environment and community life. At the same time, it lays the foundation for numerous innovations. The Federal Government will therefore adopt a comprehensive Digital Agenda 2014 - 2017 and will implement it together with the business community, the parties to collective bargaining, civil society and the academic community. The aim is to bring together the various lines of action and stakeholders in this Agenda.

170. The Federal Government will continue to develop the Information and Communication Technology Strategy (ICT Strategy) for the digital economy. The aim is particularly to extend digital infrastructures, force the pace on the development of forward-looking digital technologies, and support the digitisation of traditional industry (Industry 4.0). The topics of IT security and the prevention of industrial espionage, as well as the question of adapting criminal law to the digital age, will also play a particular role. At the same time, the use of big data and cloud computing should be strengthened with due attention given to data protec-

Diagram 6: R&D spending by European countries relative to GDP (2010 – 2012)



* 2011, 2012 figure

** 2008 figure

Source: Eurostat, Status: December 2013

tion concerns. In addition, the Federal Government will develop a strategy for smart networks in 2014, whereby innovative technologies are to make traditional infrastructures, such as energy supply networks, more efficient and more reliable. Further to this, the Federal Government will continue to encourage and promote research into the topics of digitisation and the Internet (including research into cyber security).

171. A free and open Internet must be maintained and participation, diversity of opinions, innovation and fair competition must be ensured. The Federal Government will enshrine network neutrality as a regulation objective in the Telecommunications Act in a binding manner, and also push for a legal regulation at the European level.

172. The platform for this digitisation will be efficient broadband networks. Within the framework of the Digital Germany network alliance and with the involvement of telecommunication companies investing in the field, the Federal Government will continue to develop the Broadband Strategy. For example – and using all available technologies – there is to be nationwide coverage of at least 50 Mbit/s by 2018. Furthermore, the Federal Government will work towards ensuring that the European and national framework conditions are such that investment in rural areas will also be worthwhile. This is necessary so that everyone in Germany has access to high-speed Internet. With regard to state aid, the Federal Government will press the European Commission for a framework that enables the expansion of broadband in rural areas in a non-bureaucratic, technology-neutral and pro-competitive manner.

F. Safeguarding the success of the energy reforms

173. The Federal Government will resolutely continue the energy reforms – the fundamental restructuring of the energy supply to achieve a situation where the bulk of energy is sourced from renewables and there is higher energy efficiency. Here, it will be guided by the “energy policy triangle” of the equally important goals of climate and environmental compatibility, security of supply and affordability. As the policies are further being implemented, greater attention must be paid to cost efficiency and the economic efficiency of the overall system including the expansion of the grid, and the necessary reserve capacities for the electricity market. This is necessary so that companies in Germany can remain internationally

competitive and private households can make use of affordable energy. Also, in view of the internal European market, more attention needs to be paid to anchoring Germany’s energy reforms more strongly in the energy policies of the European Union. Germany will continue to advocate the advantages of its energy reforms at European level and aim to ensure that EU rules support the energy reforms in Germany.

Renewable energy: reforming the Renewable Energy Sources Act

174. The Federal Government is in favour of a sustainable, steady and affordable expansion and of continued market and systems integration of renewables. The share of renewables in the electricity supply is to rise to 40-45 % by 2025 and to 55-60 % by 2035. The existing cost dynamism of the Renewable Energy Sources Act is to be interrupted, and the rise in electricity costs for consumers restricted as a result. With a view to implementing these goals, the Federal Government will present a proposal for a fundamental reform of the Act by Easter 2014. The Council of Economic Experts also calls for far-reaching changes (GCEE Annual Report Item 820).

175. Since the renewables surcharge will not fall significantly for the foreseeable future, the special equalisation scheme, i.e. the limitation of the surcharge for electricity-intensive companies in the manufacturing sector, remains necessary in order not to imperil the international competitiveness of energy-intensive industry and to retain complete value chains and industrial jobs in Germany (cf. also GCEE Annual Report Item 789). The Federal Government will continue to develop the exemptions on the basis of objective and transparent criteria, as well as the appropriate contribution towards the costs by the privileged companies, and will reform the rules in line with European law. At the same time, the intention is that the companies benefiting from this not only introduce an energy management system, but also attain commercially sensible and technologically feasible progress on energy efficiency. Generators of electricity for in-house consumption are also to participate in a balanced way in the renewables surcharge in the course of a reform of the Renewable Energy Sources Act.

176. The Federal Government aims to integrate the funding of renewables in Germany into the internal European market. To this end, the Renewable Energy Sources Act will be revised in compliance with European law. At the same time,

the government will work to ensure that the EU rules and state aid rules continue to support the expansion of renewable energy in Germany. Irrespective of this, the Federal Government continues to assume that the Act does not constitute state aid.

Ensuring security of supply

177. The restructuring of the electricity supply in the interest of combating climate change to a supply based more on renewables and with greater energy efficiency necessitates a flexibilisation of the entire system. We need a new, more flexible interplay between renewables, conventional power plants, demand, smart grids and, in the medium to long term, storage facilities. If we are to be able to ensure energy security at all times, we will continue to need an adequate amount of conventional power plants for the foreseeable future. We will continue to need highly efficient and flexible conventional power plants in future. This is particularly the case as long as the intermittent supply of power from renewables cannot be offset by sufficient and low-cost alternative flexibility options like storage or demand management systems. For this reason, the Federal Government will put policies in place for flexibility options on the supply and demand sides. With a view to security of supply, a distinction needs to be made between the nation-wide and

the regional (southern German) perspective (cf. also GCEE Annual Report Items 794 f., 797). Germany currently has an adequate stock of power plants.

178. In the next few years, the grid reserve is to be developed further against this background. The Council of Economic Experts does not see any need for changes to the existing market design via the introduction of capacity mechanisms. It finds insufficient indications of market failure at present (GCEE Annual Report Item 798). However, the Federal Government cannot exclude the possibility that the current capacity situation will change by the end of the decade. For this reason it will develop in the medium term a competition-based and technology-neutral capacity mechanism based on cost-efficiency and in compliance with European rules.

179. In order to ensure that the supply remains reliable when there is no wind or sun, Germany will need not only other flexibility options like load management and power-to-heat in the long term, but also a blend of various storage technologies. To this end, it is important to design the rules for all storage facilities in a technology-neutral manner. Pumped storage facilities should be able to continue to make an economically viable contribution to grid stability in the future. In view of the future system functions, the end-user obligations of the storage facilities are to be

Box 4: Core aspects of the reform of the Renewable Energy Sources Act include:

- The expansion corridor for renewables is made binding in the Act.
- The instruments for the effective steering of the expansion will be designed in a technology-specific manner.
- The renewables will be expanded in such a way that the expansion targets are attained and the costs limited. The expansion of renewables will focus on the lowest-cost technologies.
- Existing over-funding will be reduced, bonuses terminated, and the funding made degressive.
- By 2017 at the latest, the level of the funding is to be established via auctions. Compulsory direct selling will be introduced in order to improve the market integration of the renewables.
- All electricity consumers will participate in the costs in an appropriate manner, but the international competitiveness of electricity-intensive industry must not be imperilled.
- The reform of the Act will comply with European law.
- The Act will be substantially simplified.

reviewed. Apart from this, the emphasis concerning new storage technologies is to be placed on research and development, since these technologies are not yet economically viable.

Rapidly expand electricity grids and make them smarter

180. The Federal Government will continue to push ahead with the rapid expansion of the electricity grids. In order to better integrate the expansion of the grids and renewable energies, the expansion corridor for renewables, as fixed in law, is to form the basis for the grid expansion. The central instrument for the expansion of the transmission paths will continue to be the Federal Requirement Plan. On the basis of the Grid Development Plan and the Offshore Grid Development Plan, this identifies the more urgent projects. Together with the *Länder*, the Federal Government has concentrated the responsibility for inter-*Länder* and cross-border expansion projects in the Federal Network Agency. It expects this to significantly accelerate the planning and approval procedures.

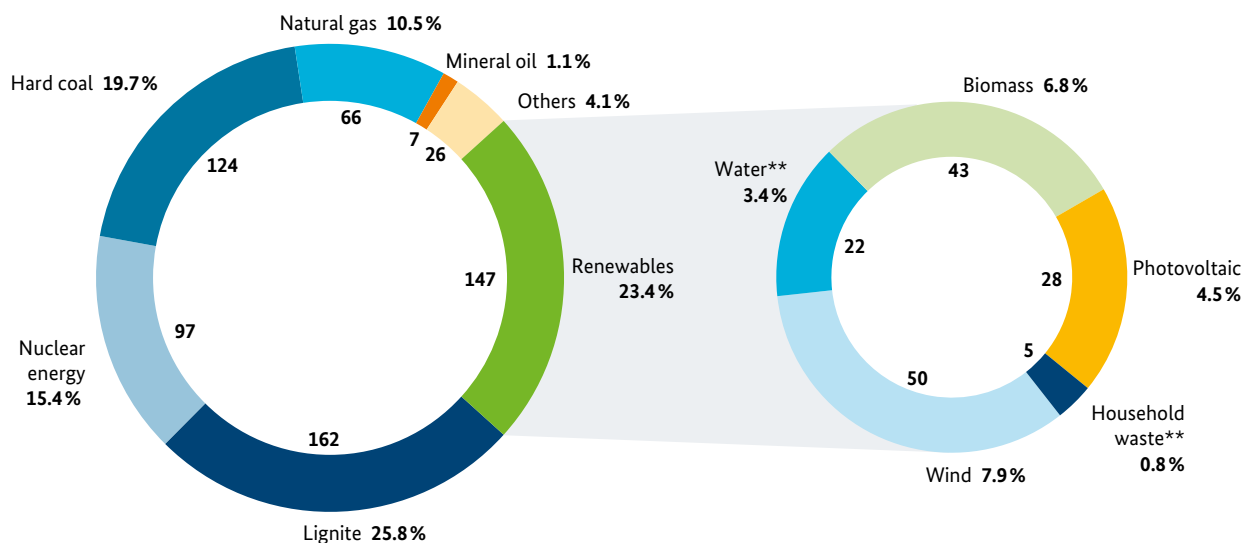
181. The Federal Government aims to design the policies for the modernisation of the distribution grids in such a manner that the necessary investment takes place. Further-

more, this year it will put in place a reliable legal framework for the secure use of smart metering systems for consumers, producers and small storage facilities with high technical standards in order to maintain data protection and data security. Also, it will review the system of grid fees to see whether it meets the needs of the energy reforms and results in a fair distribution of the burdens in the financing of the grid infrastructure.

Improving energy efficiency

182. Energy efficiency plays a key role in the success of the energy reforms. Progress on energy efficiency necessitates a horizontal approach embracing buildings, industry, commerce and the residential sector and focusing equally on electricity, heating and cooling. For this reason, the Federal Government is producing a National Action Plan for Energy Efficiency in 2014 for the first time, bringing together the targets for the various fields, the instruments, the financing and the responsibilities of the various stakeholders. It will be reviewed via annual monitoring. The Federal Government is pursuing a blend of different policies, in particular incentives, standards, labelling and high-quality, independent advisory services. The building stock is to be nearly carbon-neutral by 2050. With regard

Diagram 7: Gross power generation in Germany in 2013: total 629 TWh*



* provisional figures ** biogenic

Source: Working Group on Energy Balances (AGEB), Status: December 2013

Germany is continuing to make substantial progress on increasing the use of renewable energy sources to generate electricity. From 20% in 2011, the proportion of renewables in power generation rose to 23.4% in 2013 (provisional estimate).

to improving the energy-related performance of buildings, the Federal Government is continuing to pursue a blend of “challenging and promoting”. The tried-and-trusted KfW funding programmes on energy-efficient building and modernisation are being topped up and made permanent, and the KfW funding programme entitled “Energy-related urban renewal” is being continued. The market incentive programme to promote renewables in the residential sector is being made permanent.

183. The Federal Government is adopting new measures to properly implement the EU Energy Efficiency Directive, which covers a variety of fields from energy audits of buildings to cogeneration of heat and power. It is working towards meaningful energy consumption labelling of products for customers and for dynamic and more challenging standards for energy-related products in the context of the Eco-Design Directive (top-runner principle).

Orienting energy research to the energy reforms

184. As a strategic element of energy policy, energy research in the context of the Sixth Energy Research Programme is being clearly focused on the needs of the energy reforms, and particularly in the case of the interministerial funding

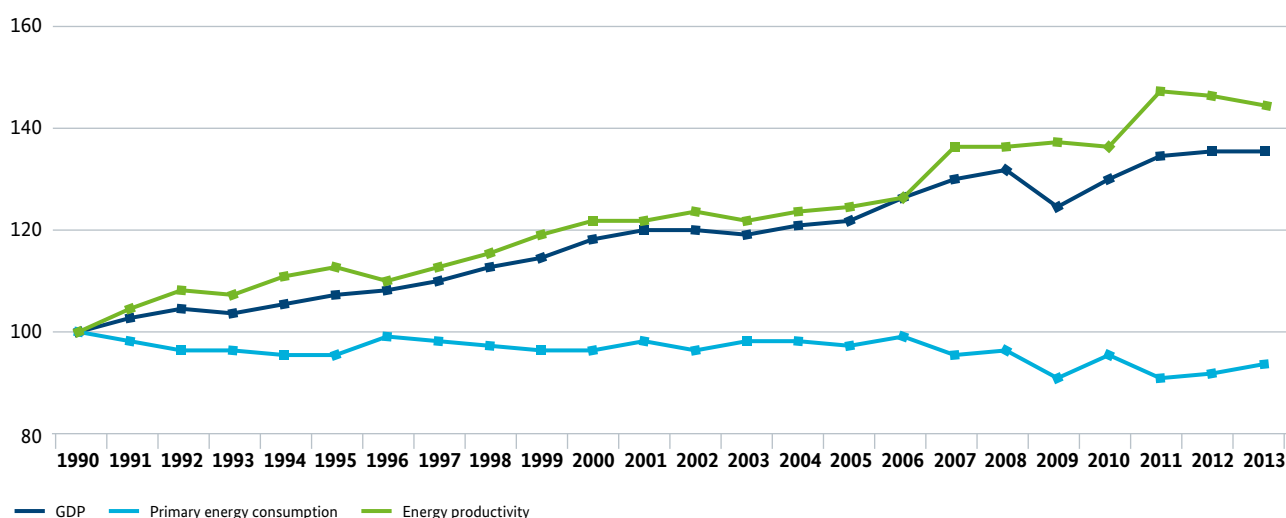
initiatives entitled “Energy storage” and “Electricity grids for the future”. The academic institutions will draft proposals for a strategic research agenda in the context of the Energy Reforms Research Forum.

185. The first federal Energy Research Report shows that the annual spending on research and development of modern energy technology rose by 77% between 2006 and 2012. Here, project funding has proved to be an appropriate and targeted instrument. The Federal Government will therefore make the funding for the energy research programme a permanent part of the budget.

Strengthening competition in Europe, building international partnerships

186. Functioning competition in Europe’s internal energy market will ensure a secure, affordable and environmentally compatible energy supply for European commerce in the long term. In view of this, the Federal Government is particularly advocating the expansion of the European energy grid infrastructure and a close energy policy dialogue within the European Union. It also maintains a number of energy partnerships with countries which play a significant role in Germany’s energy security.

Diagram 8: Energy productivity in Germany in 2013* (Index 1990 = 100)



* provisional

Source: Energy Balances working group, Federal Statistical Office. Status: January 2014

Energy productivity has risen in Germany in recent years. Today, a unit of energy generates more GDP. The rising level of energy productivity shows the increasing decoupling of economic growth and energy consumption. Further efforts are needed to attain the efficiency goals and to make the trend permanent.

Monitoring and dialogue: creating transparency and public acceptance

187. The Federal Government is keeping track of the transformation of the energy supply via the “Energy of the Future” monitoring process. In addition to the annual monitoring report, a summary progress report is being presented at the end of the year for the first time; it will contain a detailed comparison of the status quo and objectives of the Energy Concept. The monitoring process is being backed by an independent commission of four independent energy experts, which is commenting from a scientific viewpoint on the Federal Government’s monitoring reports.

188. If the energy reforms are to succeed, there must be a continuous dialogue with all stakeholders and a high level of public acceptance. For this reason, the Federal Government will continue the dialogue with businesses, trade unions, the scientific community and societal groups, and will comprehensively involve the citizens in the implementation of the projects related to the *Energiewende*. To this end, it aims to form a “Forum *Energiewende* (Energy Council)”. The Federal Government aims to shape the energy reforms in a way that is compatible with nature. A centre of excellence on “Nature Conservation and Energy Reforms” is therefore being established.

Raw materials and resource efficiency – important principles for commercial activity

189. German industry depends on a reliable supply of raw materials, particularly when it comes to developing high technologies. First and foremost, it is up to the companies themselves to cover their needs on the market. The Federal Government will support them by improving the policy environment for resource efficiency and the closed-cycle economy, promoting domestic extraction of raw materials, ensuring fair and transparent conditions in the commodities trade, and entering into raw materials partnerships. Here, the Federal Government is aiming to ensure that high social and ecological standards are adhered to in the extraction of raw materials, and supports initiatives for sustainable supply chain management. As part of its Raw Materials Strategy, the Federal Government launched the exploration funding programme in 2013. The funding programme aims to improve Germany’s supply of critical raw materials. Further to this, activities of German development co-operation in the raw materials sector have been

brought together with the Global Development Policy Raw Materials Initiative. In order to boost resource efficiency, the German Resource Efficiency Programme is to be developed further, a Resource Efficiency Platform established and advice for businesses and private citizens improved. The aim is a sustainable material flow economy in which material cycles are largely closed.

Successfully combating climate change

190. The Federal Government attaches central importance to climate mitigation in its energy policy. Committed efforts to tackle climate change are to be developed into a driving force for progress in Germany and are to boost prosperity and competitiveness. In comparison with other industrial nations, Germany is leading the way forward on cutting greenhouse gas emissions. In view of the reduction of 23.6%, the Kyoto target of cutting greenhouse gases by an average of 21 % in the 2008–2012 period compared with 1990 has been clearly over-fulfilled. The measures to combat climate change and the energy reforms are already having an effect. However, current projections suggest that they are still insufficient to attain Germany’s challenging climate targets. According to the Federal Government’s 2013 projection report, which contains measures up to October 2012, the greenhouse gas emissions will fall by 33–35 % by 2020. The Federal Government is sticking to its national target of cutting the emissions of greenhouse gases by at least 40 % by 2020 and by 80–95 % by 2050 (base year: 1990).

191. The energy reforms must be embedded in a comprehensive European climate strategy which complies with the long-term international climate targets, and particularly the 2-degree target. For this reason, the Federal Government aims to cut greenhouse gas emissions within the European Union by at least 40% by 2030 against 1990, as part of a triad of goals for greenhouse gas reduction, expansion of renewables and energy efficiency. The attainment of ambitious European climate protection targets must not result in disadvantages for energy-intensive companies facing international competition. For this reason, the Federal Government advocates an ambitious, globally binding climate agreement. Climate mitigation and the expansion of renewables are being promoted worldwide via programmes and co-operation, particularly with emerging and developing economies.

G. Europe on the road to a union of growth and stability

192. There are increasing signs of economic recovery in Europe. Risk premiums have fallen, and positive economic growth is expected in almost all member states this year. This is thanks – in addition to the measures at European level – to the substantial efforts being made by the programme countries to reform, but also to the supportive policies of the ECB.

Nevertheless, the crisis is not yet overcome. The conditions under which companies can access finance remain difficult in some eurozone countries. This is slowing the economic recovery throughout the eurozone. Several European countries are still in, or are on the edge of, a recession; unemployment – especially amongst young people – is unacceptably high, and the public-sector debt levels remain high.

193. The crisis in the eurozone has been caused by a variety of factors. These range from the excessive debt of certain European countries to deficiencies in competitiveness, economic imbalances and structural faults in the European Economic and Monetary Union, as well as undesirable developments on the financial markets.

The crisis has clearly manifested the mutual interdependency of all the Eurozone countries. In order to further reduce imbalances in the Eurozone, Europe has not least responded with improved procedures to co-ordinate economic, employment and fiscal policies. Also, the member states have paved the way for a European banking union. These procedures and projects now need to be properly implemented. In this context, the use of an EU scoreboard to display progress on jobs and social development should be pursued.

194. Further to this, it is important to continue to develop the Economic and Monetary Union in a way that makes sense. Here, one aim should be to improve the co-ordination of national economic policies and the implementation of necessary reforms and to make this more binding. To this end, contractual agreements on reform by the member states with the European level can foster competitiveness, sustainable finances, growth and jobs, coupled with solidarity, and the Federal Government is advocating such agreements. In order to strengthen the citizens' sense of "ownership" of Europe, there is a need for better democratic legitimacy at the respective levels where the decisions are taken and implemented. An important role here is played by national parliaments.

195. Solidarity and individual responsibility belong together in Europe. On the road to higher growth, higher employment and sound public finances in all European member states, it is crucial to strengthen responsibility and liability – not least of the players on the financial markets – on a foundation of European solidarity.

196. In order to strengthen the Economic and Monetary Union, the Council of Economic Experts advocates a long-term regulatory framework. The model is to be based on three pillars: a national fiscal policy with national debt rules, a banking union and European financial market regulation, and a long-term rules-based crisis mechanism which includes a procedure to restructure debt (cf. GCEE Annual Report Item 269). The Federal Government basically agrees with most of the Council's proposals; however, some of them first require further fleshing-out. The Federal Government will intensively discuss and examine them in a dialogue with the Council.

Sustainable growth and jobs throughout Europe

197. Improved competitiveness via structural reforms, sustainable investment in the future, the thorough implementation of the Compact for Growth and Jobs and in particular also a stimulus for small and medium-sized enterprises, coupled with a sound fiscal policy, are the keys for European growth. Here, national and European efforts must go hand in hand.

198. Structural reforms should aim to foster competitiveness, jobs and investment activity and to make the economies more adaptable. Also, there is a need for higher investment, for example in infrastructure, transport, trans-European networks, education, research and development. In this context, it is also necessary to implement the possibilities of the European Investment Bank and the EU budget including EU structural funding in a targeted fashion in order to build up the necessary infrastructure.

199. Thorough compliance with the Stability and Growth Pact also boosts confidence in a credibly sustainable fiscal policy of the member states and thus also the foundations for growth.

200. The Federal Government will press hard to ensure that the Compact for Growth and Jobs adopted by the European Council in June 2012 is properly implemented. The Compact includes the efforts by the member states to reform, and also projects at European level. This includes the €10bn

increase in the equity of the European Investment Bank of 2012. This has enabled it to issue more loans, and these particularly went to help small and medium-sized businesses and the youth employment programme “Jobs and skills – investment for youth”. In the context of the pilot phase of the project loan initiative, funding from the EU budget can also be used towards infrastructure projects in the fields of transport, energy and telecommunications.

201. Boosting employment amongst young people in particular is one of the key challenges facing Europe. To achieve this, there must be socially acceptable structural reforms on the labour markets and higher growth in the relevant member states. The resolute implementation of the “Youth Guarantee” agreed at European level by all member states is therefore of especial significance. Germany will set a good example and will continue its efforts to promote youth employment, particularly with those EU member states with which the Federal Government has already concluded joint declarations of intent in this regard.

202. The priorities for employment policy co-ordination at European level include the ability of the labour markets to function, an activating and preventive labour-market policy, an increase in mobility and the introduction of elements of dual vocational training into the vocational training systems. Also, the effectiveness and efficiency of the public labour administrations are to be strengthened; for this reason, the Federal Government aims to improve the dialogue between the labour administrations on proven practices at European level.

In order to increase the mobility of trainees and workers in Europe, the EURES network of European labour administrations is to be strengthened – as agreed in the Compact for Growth and Jobs. Further to this, the Federal Government has concluded bilateral agreements with numerous interested member states on co-operation on labour-market policy and on vocational training.

203. The Federal Government continues to press for the rapid implementation of a financial transaction tax via enhanced co-operation in the EU, with a broad assessment basis and a low tax rate. Such taxation should cover all financial instruments if possible. It is necessary to assess the impact of the tax on instruments for pension provision, small-scale investors and the real economy, and to avoid negative repercussions; at the same time, undesirable forms of financial transactions should be combated.

In favour of deepening the Economic and Monetary Union

204. Since the introduction of the European Semester, the economic, employment and fiscal policies of the member states have been better co-ordinated. The European Semester feeds into country-specific recommendations by the Council of the European Union. Launching this year’s 2014 European Semester, the European Commission presented its Annual Growth Survey in November 2013; not least, the Survey calls for better implementation of the country-specific recommendations.

205. The Federal Government welcomes the fact that the country-specific recommendations were made more specific last year. The Federal Government has always advocated this and takes the recommendations addressed to Germany seriously. It will report in detail about the implementation of the current recommendations in its 2014 National Reform Programme.

206. Furthermore, the European Commission has presented its new early-warning report in the context of the procedure to prevent and correct macroeconomic imbalances. In it, it cites member states which may have macroeconomic imbalances and are therefore to be subject to an in-depth investigation. In 2014, the Commission will undertake an in-depth analysis of Luxembourg, Croatia and, for the first time, Germany, in addition to the member states studied last year (cf. 2013 Annual Economic Report, Box 3). The reason for the inclusion of Germany in this procedure is presumably Germany’s current account surplus. Averaging 6.5 % in the 2010-2012 period, this exceeded the 6% warning threshold.

207. Together with the European partners, the Federal Government aims to reduce economic imbalances whilst complying with the rules of the reformed Stability and Growth Pact.

Germany will contribute to this through its domestic dynamism with a further rise in employment, the introduction of a statutory minimum wage, the orientation of temporary agency work to its core functions, appropriate policies for responsible collective bargaining and the strengthening of investment. Stronger domestic demand in Germany can generate a positive stimulus in other member states. It is vital that countries whose current accounts record or recently recorded high deficits maintain their efforts for structural reforms, e.g. on the labour and product markets.

All of this will help to reduce Germany's current account surplus and to lower the deficits of other countries.

208. The Federal Government is in favour of a resolute implementation of the imbalances procedure. The Commission will present the results of the in-depth investigations in spring 2014. However, the Council of the European Union found back on 8 November 2011 that high and ongoing current account surpluses shall not result in sanctions. In contrast to current account deficits – according to the Council of the European Union – they do not give cause for concern about the viability of the foreign debt or the financing capacity.

209. The Federal Government is committed to the rules of the strengthened Stability and Growth Pact and is working in Europe to ensure that they are properly applied. The crisis has shown that European correction mechanisms often intervene at too late a stage. In order to avoid future disruption in the Monetary Union, therefore, budget policies and debt development must be better monitored, and economic imbalances in the Eurozone must be reduced by means of co-ordinated efforts by all euro member states.

210. The Federal Government is also advocating that the eurozone countries conclude binding and enforceable, democratically legitimised contractual agreements on reforms with the European level which are oriented towards achieving the goals of competitiveness, sound and sustainably viable finances, growth and employment, coupled with solidarity.

H. A serving function for the financial markets

211. Anyone who takes on a risk must assume liability for his actions – this is in line with the rules of the Social Market Economy. Taxpayers, on the other hand, should not bear liability for the actions of others. When it comes to regulating the financial markets, therefore, the Federal Government is guided by the G20 principle that no financial market and no financial market player must be left without appropriate supervision. The service function of the financial sector for the real economy must take precedence over speculative transactions. The Federal Government is also sticking to Germany's tried-and-trusted three-pillar model of savings banks, co-operative banks and private banks.

Crisis prevention – restoring confidence in banks

212. New, stricter European capital adequacy and liquidity rules (CRR/CRD IV to implement Basle III) are gradually making banks more resilient to financial crises in the period up to 2019. This includes a pan-European, binding leverage ratio which takes appropriate account of the riskiness of the business models.

213. The new Single Supervisory Mechanism for banks in the euro currency area will probably start its work in November 2014. The direct ECB supervision will probably concentrate on approx. 130 "significant" bank(ing groups) of the participating member states, more than 20 of them from Germany. A clear separation of responsibilities must prevent conflicts of interest between banking supervision and monetary policy at the ECB.

214. In the view of the Council of Economic Experts, many European banks are suffering from non-performing loans, the precise extent of which is unknown (cf. GCEE Annual Report Items 365 ff.). The Federal Government assumes that, if it is carried out strictly, the examination of the accounts by the ECB which has just begun and the stress test planned together with the European Banking Authority from summer 2014 can strengthen confidence in the stability of the European banks. If it is found that individual banks are in need of capital, the first port of call must be the banks and their shareholders, and thereafter the respective member states.

No more banks which are "too big to fail" or "too interconnected to fail"

215. The financial crisis has shown that, due to their high level of interconnectedness and their significance for the real economy, some banks cannot be released into a disorderly insolvency procedure without considerable costs to the overall economy. However, it must also be possible for such "systemic" banks to be able to exit the market in future; "too big to fail" must cease to apply. For this reason, the Federal Government advocates clear European resolution rules and a clear cascade of liability, as also called for by the Council of Economic Experts (cf. GCEE Annual Report Item 304): losses must be borne first by the bank and its shareholders, then by its creditors – with the exception of deposits of up to €100,000. Should there be a need for finance beyond this, resolution funds paid into by the banks must be created. Within the banking union, a European resolution fund for systemic banks should be set up,

funded by the banks. Should the funds of the private sector be insufficient and taxpayers' money be necessary for the resolution of a bank, the money should first be provided by the respective member state.

216. The Bank Recovery and Resolution Directive establishes the first stages of the cascade of liability – regarding the liability of the private sector – for the whole EU. The main components are an instrument which will involve shareholders and creditors in losses of banks (bail-in) and the establishment of resolution funds. The directive is thus a key element of the reintroduction of the liability principle in the banking sector.

217. Following the agreement by the European finance ministers in December 2013, from 2016 a European resolution body with representatives of the national supervisors is to decide directly on the resolution of banks under direct ECB supervision and other banks which are active across borders within the eurozone and in other member states which participate voluntarily. The Federal Government is continuing to advocate this vigorously. In order to be able to finance decisions on resolution within the banking union, a European resolution fund, initially with separate national funds, will be set up. The fund will be financed from bank levies imposed nationally and is to attain a target volume of €55bn within ten years. The national funds are to gradually be merged into a single fund over ten years.

218. The Federal Government believes that direct recapitalisation of banks from the ESM is only possible if, prior to this, all other means have been exhausted, financial stability is threatened, an indirect ESM banking programme is excluded in terms of the viability of the state to cover the debt, and an appropriate macroeconomic or sector-specific conditionality has been agreed. The new instrument must not exceed a maximum volume totalling €60bn in line with the agreements made, and cannot be used before a European single resolution mechanism has been adopted and the ECB has assumed operational responsibility for banking supervision. The Federal Government believes that the instrument should only be an interim solution. In order to give the ESM the possibility to directly recapitalise banks, it is necessary to obtain the approval of the German governor on the ESM Council (principle of unanimity), which in turn requires statutory authorisation in Germany.

219. The Federal Government will advocate that the proposals by the Liikanen Commission to restrict risky trans-

actions, to introduce maximum lending ceilings for real estate loans, and to achieve a stricter separation of investment and retail banking, are implemented at European level. The financing of the real economy via the tried-and-trusted universal banking system must, however, not be imperilled. If large banks in Germany exceed certain thresholds, they will have to hive off certain fields of business into a separate legal, organisational and commercial unit by 2016. Since risky transactions will have to be fenced off in future, it will be easier to resolve systemic banks and to reduce the risks to the real economy, clients and taxpayers.

Safeguarding the future viability of insurance companies

220. The Federal Government will draft proposals on handling the repercussions of a long-lasting low-interest-rate environment and take appropriate measures in the interest of the community of the insured to strengthen the resilience and stability of life assurance companies. In so doing, it will pay appropriate attention to the interests of the various groups of insured parties.

221. The new *Solvency II* supervisory regime, which is planned to be launched in 2016, will fundamentally reform the rules governing insurance supervision in Europe. In particular, the capital adequacy and risk management provisions for insurance companies will be updated. An adequate transitional provision will make it possible to gradually introduce this into the field of life assurance.

Strengthening consumer protection in the financial sector

222. The Federal Government has strengthened consumer protection in the financial sector. A Consumer Advisory Board is advising the Federal Financial Supervisory Authority (BaFin) on the fulfilment of its tasks. Furthermore, consumers and consumer associations can now conduct a formal complaints procedure so that practical experience can feed into BaFin's work.

223. The Federal Government will press ahead with fee-based consultancy as an alternative to commission-based advice for all financial products. Fee-based investment advice may only be provided by people who have a sufficient overview of the market and whose advice is paid for solely by the client. The Federal Government has also intro-

duced compulsory product information leaflets for pension products supported by the state. This increases transparency and comparability.

224. In future, the consumers are to receive a warning note when they use overdraft facilities and, if they use them to a significant extent and on a long-term basis, are to be pointed towards cheaper alternatives. The Federal Government also supports a European initiative which will in future enhance the transparency and comparability of account management fees, make it easier to switch between payment accounts and ensure access to a payment account with basic functions for everyone.

More transparency on the markets

225. The shadow banking system (cf. 2013 Annual Economic Report Item 115) must be regulated in a way that, for the same transaction and risk, in principle the same rules apply as in the traditional banking sector. It is important to prevent activities of the banking sector being outsourced to other areas in order to avoid stricter regulation. The Federal Government has long been an advocate of adequate international regulation of the shadow banking system. At the G20 summit in St. Petersburg in September 2013, a clear and binding timetable was adopted in response to a German initiative regarding the next steps.

226. At national level, in order to implement an EU directive, a statutory code for capital investment has been established which subjects all fund managers and funds to financial supervision.

227. The Federal Government is in favour of strengthening the functioning and resilience of the securities and derivatives markets. In particular, their transparency should be increased in order to tackle undesirable developments and systemic risks. For example, the European Market Infrastructure Regulation has been implemented in Germany. Further to this the revision of the European Markets in Financial Instruments Directive has been largely completed. For companies in the real economy, derivatives fulfil the important function of hedging them against price fluctuations, particularly for raw materials and currencies. Not only companies, but also consumers, directly benefit from this. The revision of the Markets in Financial Instruments Directive will extend regulation to previously unregulated trading platforms and will shift over-the-counter trading in standardised derivatives to organised trading platforms. Also, the transparency rules in share trading are

to be extended to include bonds and derivatives, special organisational requirements are to be introduced for high-frequency trading, and investors are to be given better protection. Finally, there are plans to increase the regulation of product derivative markets in order to reduce speculation in raw materials and foodstuffs.

228. Rating agencies have a central position of power on the financial markets and therefore need strict regulation. In the context of the Third EU Rating Regulation, the Federal Government argued successfully for the inclusion of liability rules for rating agencies under civil law; these now need to be applied effectively.

The Federal Government will continue to advocate that the rules requiring the involvement of the three large rating agencies be reduced, and particularly supports the European Commission in its mandate prescribed by the Regulation to delete by 2020 all provisions in EU law which require the use or issuing of ratings for supervisory purposes.

I. Improving international economic relations

229. Not least in view of the great significance of external economic relations for the German economy, the Federal Government will work towards further improvements in international economic relations. Here, it is guided by Germany's interests and values. In this regard, the new WTO agreement is a major success. The Federal Government advocates the liberalisation of foreign markets and the establishment of a level playing field in the context of a fair world trade system which also integrates the developing countries more strongly into the multilateral trading system. The priority here continues to be placed on market liberalisation in the multilateral framework of the WTO. The Federal Government will continue to advocate this in the G20 context. Also, the Federal Government wishes to see balanced and ambitious free-trade agreements between the EU and major third countries. The focus here is on the Transatlantic Trade and Investment Partnership and agreements with fast-growing emerging economies.

Breakthrough for responsible free trade

230. The ninth WTO Ministerial Conference in Bali from 3 to 7 December achieved a breakthrough in the WTO's multilateral negotiations. It proved possible to resolve important aspects of the Doha round. In particular, the understanding on an agreement for trade facilitation will

result in substantial simplifications in customs clearance procedures. Further major decisions were taken on agricultural and development issues in the Doha round. This provides an important stimulus to work step by step through other issues of the Doha negotiation mandate and to uphold the prospect of a successful overall conclusion to the round. At the same time, the multilateral trading system has been strengthened in its function as a central regulatory framework for world trade.

231. The Federal Government's export credit guarantees safeguard German exporters, and particularly SMEs, and the banks financing them, against defaults in the export business. In 2013, the Federal Government provided export credit guarantees worth approx. €28bn. As in the preceding years, the Federation made a positive contribution to the federal budget from its export credit guarantees. At present, state export credit insurers from non-OECD countries in particular are gaining in importance. In the interest of fair competition, the Federal Government is calling for global standards for state export credit guarantees.

232. In 2013, the Federal Government provided approx. €3bn in new guarantees to insure foreign investment by German firms against political risks. The total amount insured by the Federation rose to a record level of approx. €33bn.

233. In its decisions on exports of military equipment, the Federal Government is committed to the Political Principles Adopted by the Government of the Federal Republic of Germany for the Export of War Weapons and Other Mili-

tary Equipment. These are binding for the actions of the new government. Further to this, the Federal Government will increase the level of transparency of its decisions on defence exports for parliament and the public.

Economic co-operation and sustainable development

234. The Federal Government is sticking to its target of earmarking 0.7% of gross national income to public development co-operation. Sustainable economic growth is a basic precondition for sustainable development and is key to reducing poverty and attaining the millennium development goals of the United Nations. Economic co-operation with the partner countries is therefore an important element of the Federal Government's development policy. German development co-operation works on the spot to improve the economic environment, to promote regional growth and employment and to develop local and regional markets. The aim of development policy continues to be the improvement of conditions for work in the developing countries. It therefore promotes compliance with environmental and social standards, corporate social responsibility and innovative and broadbased business models. Development policy is also global structural policy and aims to make globalisation sustainable and fair. It advocates the protection of global public goods. In co-operation with German commerce, the Federal Government supports the establishment and expansion of the private sector in the developing countries on the basis of a balanced division of roles between the state and the private sector – in the interest of a sustainable, social and ecological development.

II. The Federal Government's projection

German economy enjoying upswing

235. As projected in the 2013 Annual Economic Report, GDP increased by 0.4% as an annualised figure for 2013 (cf. Overview 4). Following a weather-related period of weakness in the 2012/13 winter semester, the German economy has shifted to a stable path of recovery. Over the course of 2013, cyclical dynamism was substantially higher than in the previous year. From final quarter to final quarter, economic output expanded at a rate of 1.2% over the course of the year (2012: 0.3%). This was roughly in line with potential growth.

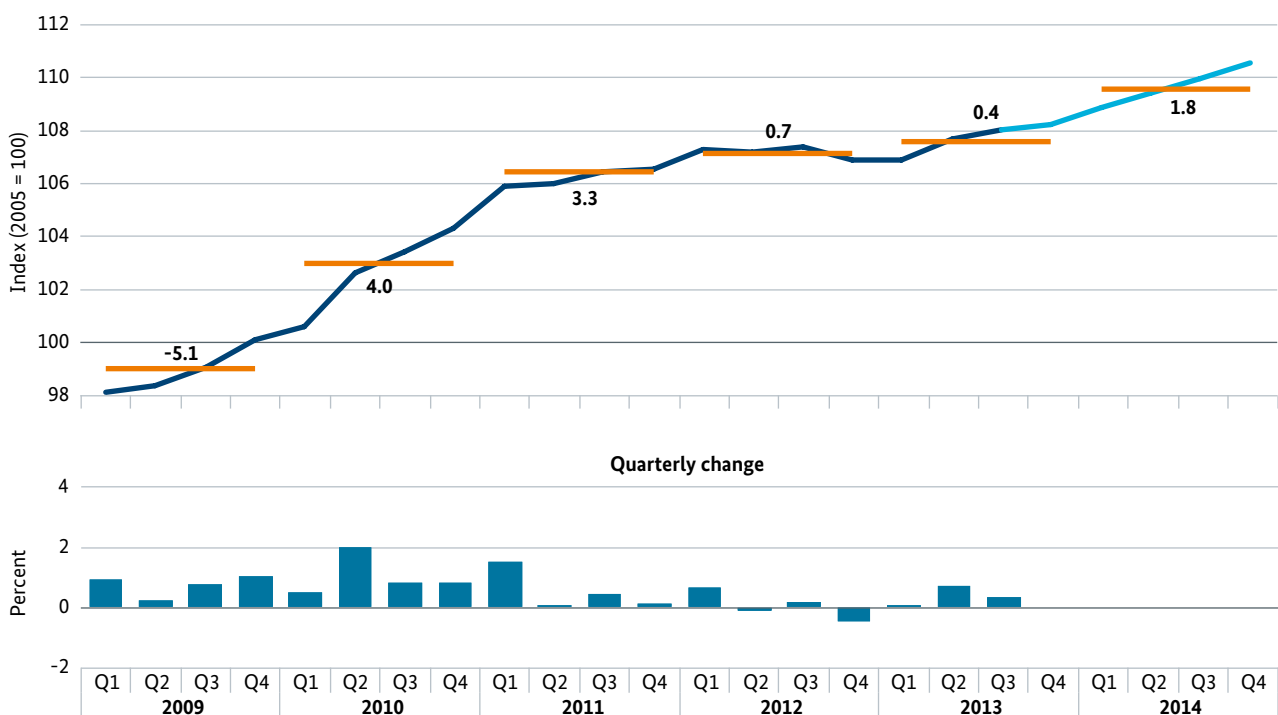
For 2014, the Federal Government expects an annual average increase in GDP of 1.8% (cf. Overview 2). The sound underlying cyclical dynamism is reflected in a broadbased and steady upward trend (cf. Diagram 9). This is reflected in the rate over the course of the year: at 2.0%, this is again stronger than last year (cf. Overview 3). This means that the overall economic recovery this year is feeding into a broad-based upturn. The indicators of sentiment also suggest that consumers and companies have confidence in a positive

cyclical development. Economic growth in Germany will thus probably again be well above the eurozone average.

In arithmetic terms, growth this year will be driven exclusively by the domestic economy. This is in line with the view of the Council (cf. GCEE Annual Report Items 112 ff.). A central role in the dynamism of the domestic economy will be played by the good development on the labour market, which is heading for a new record level of employment. The favourable corporate growth and profit outlook will permit an expansion of jobs and wages. This will result in appreciable rises in income for households. Further to this, the broadening of and increase in pensions will boost disposable income in 2014. In the course of the upswing, income from profits and assets for private individuals will also rise.

In view of the favourable environment, the households will substantially increase their spending on consumption and house-building. The business climate has improved, and the level of capacity utilisation in the overall economy is rising. This means that companies are likely to invest more

Diagram 9: Development of GDP in Germany (price-adjusted)



Blue line: Quarterly changes in previous year's prices, adjusted for seasonal and calendar effects
 Orange line: Yearly averages in previous year's prices, year-on-year changes in percent
 Blue columns: Changes in percent, adjusted for seasonal and calendar effects

Source: GDP trends until Q3 2013: Federal Statistical Office; own calculations

Overview 2: Key figures for macroeconomic trends in the Federal Republic of Germany¹

	2012	2013	annual projection 2014
Percentage change on preceding year			
Gross domestic product (GDP), output approach			
GDP (real)	0.7	0.4	1.8
Total employment	1.1	0.6	0.6
GDP per employee	-0.4	-0.2	1.2
GDP per hour worked	0.5	0.2	1.3
<i>for information:</i>			
Unemployment rate in % (ESA-Concept) ²	5.3	5.1	4.9
Unemployment rate in % (Federal Employment Agency definition) ²	6.8	6.9	6.8
GDP by expenditure (at current prices)			
Consumption expenditure			
Private consumption expenditure	2.4	2.5	2.9
Public consumption expenditure	3.0	3.9	4.0
Gross fixed capital formation	-0.6	0.2	4.9
Change in stocks (EURO bn)	-10.3	-8.9	-5.6
Domestic demand	1.4	2.4	3.6
Foreign balance of goods and services (EURO bn)	157.9	166.7	167.9
Foreign balance of goods and services (as % of GDP)	5.9	6.1	5.9
Gross Domestic Product (nominal)	2.2	2.6	3.4
GDP by expenditure (real)			
Consumption expenditure			
Private consumption expenditure	0.8	0.9	1.4
Public consumption expenditure	1.0	1.1	1.9
Gross fixed capital formation	-2.1	-0.8	3.5
Machinery and Equipment	-4.0	-2.2	4.0
Construction	-1.4	-0.3	3.2
other plant and equipment	3.4	3.0	4.8
Stockbuilding (GDP growth contribution) ³	-0.5	0.0	0.1
Domestic demand	-0.3	0.7	2.0
Exportes	3.2	0.6	4.1
Importes	1.4	1.3	5.0
External balance of goods and services (contribution to GDP growth) ³	0.9	-0.3	-0.1
Gross Domestic Product (volume)	0.7	0.4	1.8
Prices (2005 = 100)			
Private consumption expenditure ⁴	1.6	1.6	1.5
Domestic demand	1.7	1.7	1.6
Gross Domestic Product ⁵	1.5	2.2	1.7
Distribution of gross national income			
<i>(resident concept)</i>			
Compensation of employees	3.9	2.9	3.2
Income from self-employment and property	-1.4	2.8	4.6
National income	2.1	2.8	3.7
Gross national income	2.3	2.5	3.4
<i>for information (resident concept):</i>			
Employees	1.2	0.8	0.6
Total gross wages and salaries	4.2	3.1	3.3
Total gross wages and salaries per employee	2.9	2.3	2.7
Disposable income of private households	2.3	2.1	2.9
Savings ratio in % ⁶	10.3	10.0	10.0

1 Up to 2013 results of the Federal Statistical Office; National Accounts Status: January 2014;

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: 2012: 2,0%; 2013: 1,5%; 2014: 1,5%;

5 Unit labour costs, percentage change on preceding year: 2012: 3,1%; 2013: 2,2%; 2014: 1,4%;

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

in plant and machinery in order to expand their capacities. As long as no serious disruption occurs in the international environment, German exports will also rise again. The prospects for this have improved thanks to last December's decisions in the World Trade Organization on further liberalisation of world trade. Higher investment in equipment and rising exports – due to their high import content of over 40 % – will also boost German imports. Imports will grow faster than exports this year. This will reduce the German current account surplus. Rising imports and increasing levels of foreign investment by German firms will help Europe's economy to recover.

Overall economic productivity and corporate profits are likely to rise this year in the course of the upswing. No inflationary tensions are expected. Unit wage costs will mark a moderate rise. In view of this positive environment, a clear and broadbased cyclical upturn can be expected. It will gain strength in almost all sectors of the economy. The Council of Economic Experts rightly states that an upswing can be expected in Germany (cf. GCEE Annual Report Items 112 ff.). A central assumption for the projection is that the financial sector remains stable and there will be no negative developments in the eurozone which will cause a significant rise in uncertainty amongst the market players. These are also central assumptions made by the Council (cf. GCEE Annual Report Items 124 ff.).

236. In detail, the 2014 annual projection is based on the following assumptions:

- Global economic growth will be around 3 ½ % (price-adjusted) in line with forecasts by international organisations. The volume of world trade is likely to expand by around 4 ¼ %.

- As technical assumptions, the oil price and 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. This means that the projection is based on an annual average oil price of approx. \$108 per barrel of Brent, or roughly 0.4 % lower than last year. The exchange rate for the euro is assumed to be slightly higher than last year, at USD 1.36. Another technical assumption is that the interest rate for main refinancing transactions of the European Central Bank will remain constant at 0.25 % until the end of the projection period.

- The price-adjusted development in wages across the economy will remain within the trend rise in productivity across the economy.

- All of the economic and fiscal policy measures adopted by the finalisation of the Annual Economic Report have been fed into the projection. The principles of the measures agreed in the Coalition Agreement have also been included in this projection.

237. Opportunities for an economic development which is more favourable than anticipated in the annual projection can be found firstly on the domestic side. Macroeconomic dynamism in Germany could turn out higher if a positive development in employment, stable prices and consumer and investor confidence are more mutually reinforcing than expected. Also, the recovery in the eurozone could be stronger than assumed in the projection. And the developing and emerging economies could also emerge from their period of weakness more rapidly than expected and thus demand more sophisticated technological goods made in Germany. Improved sales prospects for exporters would further stimulate investment in Germany.

Overview 3: Technical details of the GDP growth projection (in percent or percentage points)

	2010	2011	2012	2013	2014
Statistical overhang at the end of the previous year ¹	1.5	0.3	-0.3	0.5	0.7
Rate of growth over course of year ²	4.2	2.2	0.3	1.2	2.0
Annual average GDP rate, adjusted for working days	3.9	3.4	0.9	0.5	1.8
Calendar effects ³	0.1	-0.1	-0.2	-0.1	0.0
Annual average GDP rate	4.0	3.3	0.7	0.4	1.8

Source: Federal Statistical Office 2014, 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.

However, the risks in the external economic environment remain high. Confidence in the recovery in the eurozone has yet to be stabilised on a lasting basis. A deterioration of the growth outlook in the developing and emerging economies would hit German exporters particularly hard in view of the type of goods they export. At the same time, monetary policy around the world is faced with the task of fine-tuning its orientation to avoid speculative excesses and to facilitate a smooth adaptation of the economy to normalised monetary policy conditions.

Firmer recovery in the global economy

238. 2013 was characterised by a gradual recovery in the global economy. This year, this recovery will consolidate and broaden. In the United States and Japan, the upswing will continue. In the eurozone, the improvement will stabilise, following the end of the recession last year. Demand will also rise in the emerging economies, albeit at lower growth rates than before the latest slowdown.

In the United States, the rate of expansion will pick up this year. The labour market situation was recently improving. The real estate market has stabilised. Consumer spending is therefore likely to boost growth. If there is to be a sustainable upturn, it is important to avoid renewed disputes over fiscal policy.

The rate of growth in Japan will be fairly steady this year, with the forces for growth shifting across to high investment and stronger net exports. The sharp fall in the real effective exchange rate of the yen will stimulate exports. At the same time, the Japanese government has taken further fiscal stimulus measures, whilst consumer spending by private individuals is likely to be appreciably slower due to the planned tax rise.

In the developing and emerging economies, growth will pick up speed again this year without attaining the very high growth rates of recent years. The International Monetary Fund expects GDP to rise by 7½% in China; it now accounts for approx. 13% of global GDP (measured in US dollars). Growth is likely to be driven by the domestic economy. The generally positive development in China will have a favourable impact on other Asian emerging economies. However, a worsening of the monetary crises in the emerging economies could significantly hit their growth prospects, and this would also affect the exporters in the industrial countries.

The economic recovery in the eurozone will stabilise. In the domestic economy, investment in equipment is likely to pick up speed again, whilst investment in construction is likely to be weak in view of the continuing problems on the real estate markets in certain member states. Following two years of shrinking GDP, almost all of the countries will register a rise in economic activity this year. Countries with ongoing needs to consolidate and adapt in the public and private sectors are only likely to record a below-average expansion. The situation on the labour market in many member states will remain tense.

Imports rise more strongly than exports

239. Due to the slow global economy, German exports grew much more weakly last year than had been expected a year ago. Not least the very fragile development in the eurozone at the beginning of 2013 had a negative effect. This year, the volume of world trade will rise much more strongly than last year. The growth of the German sales markets – the volume of world trade weighted according to the shares of German exports – will again lag behind the growth in overall world trade due to the continuing low economic growth in the eurozone. However, increased export expectations on the part of the companies signal that German exports of goods and services will pick up more strongly this year than last year. Latest reports show that the order books of the manufacturing sector, which is specialised in capital goods, are well stocked. However, the export dynamism will not attain the level of the post-crisis recovery process in 2010/11.

Overall, the exports of goods and services from Germany are likely to grow by 4.1% in real terms this year. In view of the rise in exports and the positive development in investment in equipment, both of which have a very high import content, imports of goods and services will also pick up speed substantially again with growth of 5.0%.

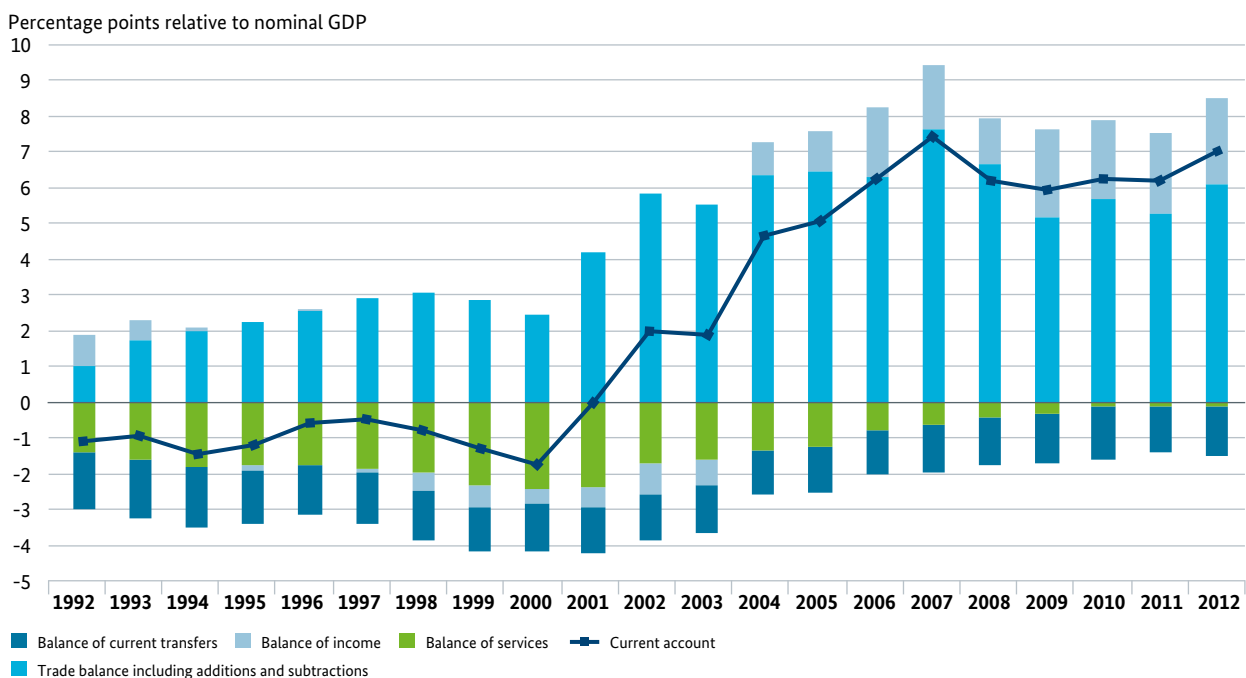
Last year, import prices dropped more sharply than export prices due to the falling world market prices for energy resources and industrial raw materials, and also due to the appreciation of the euro. In view of the moderate overall development in demand on the German sales markets, these also pointed slightly downwards. This resulted in improved terms of trade in 2013. The 2014 annual projection expects a slight rise in prices of both imports and exports, so that no significant effect on the terms of trade is expected.

Box 5: The structure of the German current account

An overview of the German current account

The relatively high current account surpluses recorded by Germany are not a permanent phenomenon. Between 1992 and 2000, the **current account** actually recorded a deficit; the balance did not rise sharply until the 2001-2007 period, and since then the surplus has been stable at a level of more than 6% of nominal GDP. Only part of this development is due to trade in goods. The surplus from trade in goods rose significantly by around 3 percentage points between 2001 and 2012, but at the same time, compared with 2000, there was also a clear rise in other parts of the account (balance of services and factor income) (cf. Diagram 10).

Diagram 10: Balances of current account and its sub-accounts



Source for underlying figures: Federal Statistical Office and Deutsche Bundesbank

The rise of 8.8 percentage points in the current account balance in terms of nominal GDP between 2000 and 2012 is made up of:

- an increase in the balance of trade (+3.7 percentage points),
- the reduction in the deficit on the balance of services (+2.3 percentage points) and
- an increase in the balances of income from wages and assets (+2.8 percentage points).

Trade surplus was relatively stable recently, but with regional shifts

The last few years have seen a clear shift in the flows of trade in favour of countries outside the eurozone. The positive balance from trade with third countries has risen clearly since 2007, from 3.3% to 4.6%. For example, the balance of



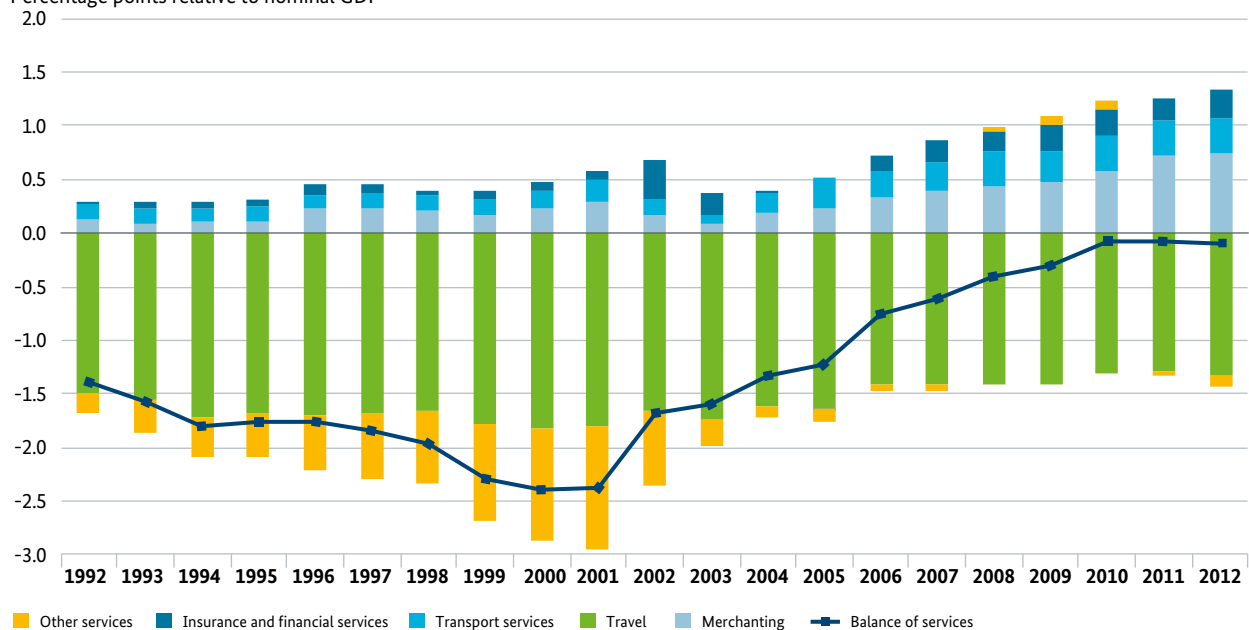
trade increased with regard to North America and particularly Asia. At the same time, the positive trade balance has almost halved in relation to eurozone countries since its highpoint in 2007, from 4.8% to 2.5% in terms of nominal GDP.

Trade in services – in deficit for many years – now almost balanced

Compared to 2000, the deficit on the balance of services has dropped by 2.3 percentage points to -0.1% in terms of nominal GDP. This was due to clear shifts in many subsectors of the balance of services (cf. Diagram 11). There was a clear improvement in cross-border travel, where income rose much faster than expenditure. Germany has become a more popular tourist destination. This resulted in a drop of the deficit by 0.5 percentage points in terms of nominal GDP since 2000. Further strong improvements are to be found in the field of transit trade revenues, by 0.5 percentage points (buying and selling of goods of residents abroad) and other services, by 0.9 percentage points (e.g. cross-border transactions relating to patents and licences, research and development).

Diagram 11: Balances of the balance of services and its sub-accounts

Percentage points relative to nominal GDP

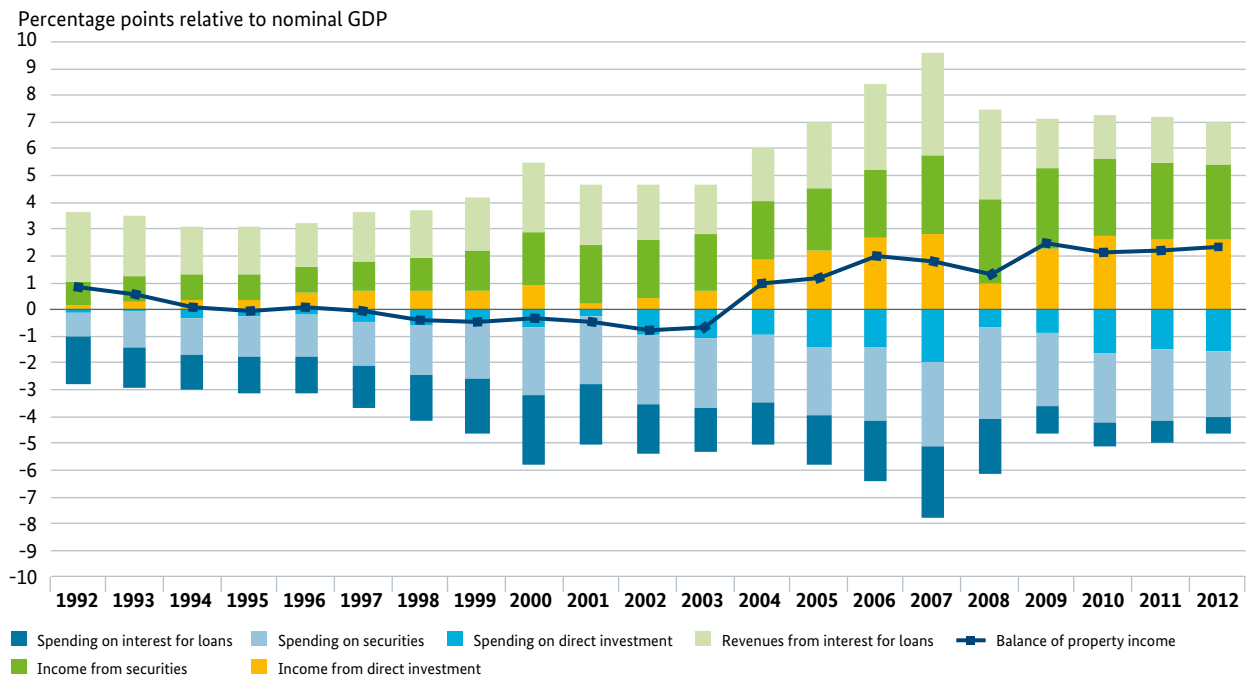


Source for underlying figures: Federal Statistical Office and Deutsche Bundesbank

Increase in balance of income from assets in relation to other countries

The balance of revenues and outgoings of **income from assets** in terms of nominal GDP rose sharply in the 2000-2012 period, by 2.7 percentage points (cf. Diagram 12). The balance of capital gains income from direct investment by residents abroad, cross-border transactions in securities and cross-border interest payments for loans contributed equally to this rise.



Diagram 12: Income on investment: revenue and expenditure

Source for underlying figures: Federal Statistical Office and Deutsche Bundesbank

Overall, this suggests that foreign trade will make a negative contribution to growth in 2014. It will slow the rate of GDP increase by 0.1 percentage points. The German current account will decline due to the falling net exports (exports minus imports) to 6.9% in terms of nominal GDP (cf. Box 5). Germany's trade surpluses with the eurozone are likely to fall further.

Pick-up in investment continuing

240. Gross fixed capital formation turned the corner last year. It is likely to expand strongly this year – backed not least by the policies set out in the Coalition Agreement – by 3.5% in real terms, thus providing an important stimulus for the upturn and placing it on a broader basis.

The ground for a sound development in investment in equipment is being laid this year by the improving global economic environment, the related positive sales prospects, and the continuing very favourable possibilities for companies to use outside and in-house financing. Nevertheless, the level of capacity utilisation in the manufacturing sector has yet to return to its long-term average. For this reason,

the need to invest in expansion is only gradually increasing. Furthermore, export-oriented companies will not only expand their investment in Germany, but will also invest on foreign markets in order to create production facilities near to their clients and to strengthen their competitiveness. Against this background, there is likely to be a tangible expansion in investment in equipment of 4.0%, although this remains moderate in the long-term comparison.

241. As an average for 2013, investment in construction fell slightly, mainly due to the poor weather in the 2012/13 winter semester, even though activity picked up over the course of the year. 2014 is characterised by a favourable environment for investment in house-building. Factors favouring this include a robust labour market, substantial growth in incomes of private households, and low interest rates. This is shown by a very clear rise in building permits recently, compared with the year before. Capacity utilisation is currently high in the construction sector (cf. Diagram 13). Despite this, the rise in construction prices last year was smaller than in 2012. In view of the continuing high level of demand, it can be assumed that the companies will gradually expand their capacities for construction

services. Private residential construction is likely to pick up speed in 2014. Commercial building is moving towards an upturn. In parallel to the expansion in the stock of machinery and plant, more companies are also investing in buildings. A positive stimulus can also be expected from the increased level of public-sector investment in maintaining and expanding public infrastructure. Overall, the Federal Government expects investment in construction to increase by an annualised figure of 3.2 % in 2014.

Rise in employment is continuing

242. The positive development on the labour market continued last year. Gainful activity rose by 233,000 people – a new record. Employment subject to social security contributions actually rose faster, at 348,000 people, than overall gainful activity.

Current leading indicators for the labour market, such as the number of vacancies, signal that the upturn in employment is likely to continue in overall terms this year. The cyclical dynamism in the German economy is likely to keep demand for labour high. Gainful activity will rise by 240,000 people this year to 42.1 million. People previously unavailable to the labour market (hidden reserve) will in-

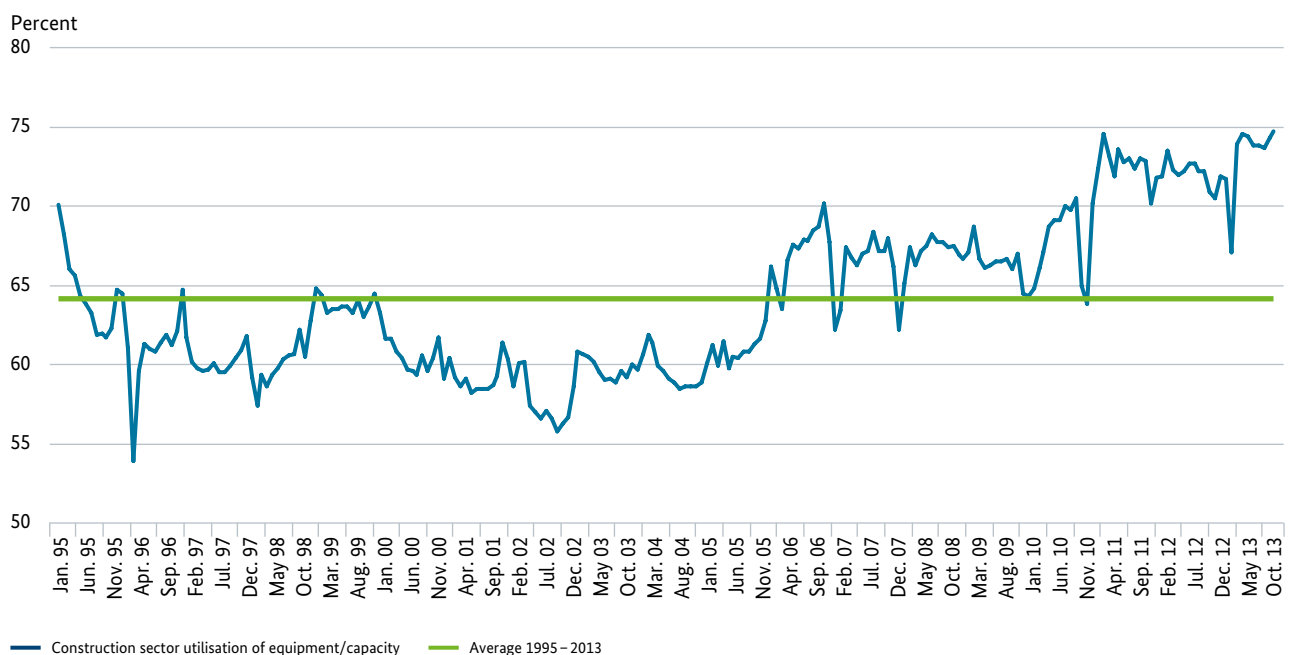
creasingly take up work. Older people and women in particular will participate more and more in working life. Further to this, the high level of immigration will make an important contribution to the rise in employment.

This means that the rise in employment will again this year be higher than the fall in registered unemployment. Registered unemployment will drop slightly by 20,000 people. The slight decline in unemployment indicates structural barriers to employment for some unemployed people. The unemployment rate will remain at a comparatively low level of 6.8 %. The internationally comparable unemployment rate according to the narrower definition of the International Labour Organization will be 4.9 % this year.

Little pressure on prices

243. The rise in the level of consumer prices was very moderate last year, at 1.5 %. The clear rise in food prices contrasted with falling prices for fuel oil and vehicle fuels. Discounting the volatile prices for food and energy, the core inflation rate last year was only 1.2 %. The moderate rise in the level of consumer prices will continue this year. This is also signalled by the expectations of inflation. The Federal Government is expecting consumer prices to rise by 1.5 %

Diagram 13: Capacity utilisation in the construction sector



Source for underlying figures: Ifo Institute

in 2014. The expected moderate development in import prices will reduce the inflation rate. Here, one factor is the assumption that the crude oil price will remain constant. Another factor is the fact that Germany still purchases just under 40 % of its goods from the eurozone, where the production capacities remain under-utilised despite the pick-up in the economy. Both consumers and domestic producers are benefiting from the stable development in import prices. Nor is there any sign of price pressures on producer and wholesale prices. Since the capacities in Germany also remain under-utilised and unit wage costs will only rise slightly, no significant acceleration in inflation across the economy is to be expected. The GDP deflator will rise by 1.7 %. At the consumer stage, however, several factors indicate that the rise in prices will be slightly higher. For example, the renewed increase in the levy for renewable energy will boost the consumer price level by approx. 0.1 percentage points. As in previous years, the rate of change of the price level is influenced by the increase in the renewables levy. Also, this year will not see special factors reducing the inflation rate, such as the abolition of the quarterly medical consultation fee at the beginning of 2013. For this reason, the core inflation rate will be 1.6 % this year, a little higher than last year.

Consumption pointing upwards

244. Since 2010 the households have increased their spending by an annual average of 1.3 % in real terms. That is roughly twice the rate of the average in the preceding decade. The environment for consumer spending in Germany remains favourable. The level of debt of households in Germany is low – not least compared with other countries. In consumer surveys, the economic outlook is viewed positively. Income expectations are trending upwards. Employees, the self-employed and people on benefits and pensions are participating in the upturn. The propensity to purchase therefore remains at a high level.

Due to the economic situation, collectively agreed wages are likely to rise somewhat more this year than last year. Effective wages across the economy (gross wages and salaries per employee) will rise by 2.7 %, roughly in line with collective wages. The overall rise in gross wages and salaries will actually be slightly higher, at 3.3 %, due to the increase in employment.

As a consequence of the rising contribution assessment ceilings in social insurance and the progressive income tax

rates, net wages and salaries will rise a little less sharply, at 3.2 %, than the corresponding gross figure this year. Due to their great weight of 45 %, net wages and salaries will contribute disproportionately to the rise in disposable income of households. Monetary welfare benefits, which account for just under a quarter of disposable income, will increase clearly compared with last year, particularly due to the increase in pensions. This derives from the wage rises of the last few years and from the envisaged expansion of pension payments. Finally, income from self-employment and assets in private households, with a share of 30 % of disposable income, will rise substantially. The low level of interest rates will reduce the growth in income from assets, but the profits of the self-employed will be much higher than last year due to the economic upswing. Taken together, disposable income of private households will rise clearly this year, by 2.9 %. The savings rate will remain stable. Nominal private consumer spending will therefore expand by 2.9 %, at a similar rate to that of disposable income. Taking the moderate rise in prices into account (deflator of consumption expenditure + 1.5 %), private consumption expenditure will continue to be a key pillar of growth, at 1.4 % (price-adjusted).

Public-sector budget remains balanced

245. Public-sector consumption will rise clearly in 2014 compared with 2013; the rate of growth is likely to exceed the 2013 rate of +1.1 %. The above-average rise is primarily due to increases in non-monetary welfare benefits. In price-adjusted terms, public-sector consumption rises by 1.9 %.

The financing balance for the total public sector fell slightly against the preceding year. Following a surplus of +0.1 % in terms of nominal GDP in 2012, the state budget was again close-to-balance in 2013 for the second time in succession with a balance of -0.1 % of GDP. A contributory factor here was the continued consolidation of the budgets of the public territorial authorities. Last year, the public-sector budget consolidated its structural surplus, i.e. adjusted for cyclical and one-off effects.

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, was easily attained. In 2014, Germany will continue to comply with the medium-term budgetary target, and the overall financing balance for the state as a whole will remain close-to-balance.

Box 6: Review: comparison with the 2013 annual projection

In its projection in the 2013 Annual Economic Report, the Federal Government assumed that the German economy would follow a cyclically difficult 2012/2013 winter semester by shifting to a moderate growth trajectory in the course of the year. Here, it was assumed that the cyclical dynamism would be driven by domestic demand given the positive development of private consumption expenditure and investment in house-building. A central assumption was that there would be no further negative macroeconomic developments in the wake of the ongoing debt crisis in Europe. This assumption was confirmed by events.

According to the first provisional annual figures from the Federal Statistical Office, economic output rose by an average of 0.4 % in 2013. This precisely confirmed the Federal Government's growth projection for the second year in succession (cf. Overview 4). At the time, the annual projection was at the lower level of the range of forecasts by research institutes, the Council and international organisations (0.3 % to 1 %).

Overall economic activity at the beginning of the year was weaker than expected due to the long, cold weather in the construction sector. However, the losses of output were offset again in the course of the year. At the beginning of the year, companies were still hesitant to invest. This gradually changed – as expected in the annual projection – in the course of the year. In conjunction with a sound development of consumer spending, the stimulus for growth derived from domestic demand. As projected, foreign trade made a slightly negative contribution to growth.

In 2013, German firms only exported slightly more than in 2012 (+0.6 %). The growth was thus much lower than expected a year ago (+2.8 %). A contributory factor here was the weaker external economic environment. Global economic growth probably amounted to 2 ¾ % in 2013, less than assumed in the annual projection (+3 ¼ %). The main factor behind this was the rate of growth in the emerging economies, which was much slower than expected. The restrained development in exports, with their high import content, also meant that imports rose more slowly.

The fall in investment in equipment as an average for the year was as expected – in view of the ongoing restrained level of investment at the start of the year. For the second year in succession, investment in construction was unable to maintain the level of the preceding year. The moderate growth in private house-building failed to offset the fall in commercial construction, so that overall investment in construction dropped slightly by 0.3 %. A year ago, the expectation had been a rise of 1.3 %.

Once again, the labour market exceeded expectations. According to provisional figures from the Federal Statistical Office, gainful activity – not least in view of a continuing high level of immigration – rose by 233,000 people. The annual projection had only assumed a small rise, of 15,000 people. As projected, the unemployment rate rose slightly last year, but at 6.9 % was lower than assumed in the 2013 annual projection (7.0 %).

Nominal private consumption expenditure developed somewhat more favourably than expected last year, with a rise of 2.5 %. Whilst disposable income rose slightly less than projected, this was more than offset by a higher propensity on the part of households to consume. The savings ratio dropped from 10.3 % to 10.0 %. In the annual projection, the Federal Government expected the savings ratio to remain at the preceding year's level. In view of the lower savings ratio and the more moderate development in the price level, the rise in price-adjusted private consumption expenditure was higher than projected last year.

The state budget remained close-to-balance in 2013. As a consequence, the financing balance for the state was more favourable than the projected deficit at the time of ½ % in terms of nominal GDP. This was due both to the stable situation on the labour market, which resulted in higher tax revenues and welfare contributions than expected, and to the ongoing consolidation of the public-sector budgets.

Overview 4: Comparison of 2013 projection with the first provisional figures for the year

Key figures for macroeconomic trends in the Federal Republic of Germany ¹	Annual projection 2013	Actual outcomes 2013
Percentage change on preceding year		
Gross domestic product (GDP), output approach		
GDP (real)	0.4	0.4
Total employment	0.0	0.6
GDP per employee	0.4	-0.2
GDP per hour worked	1.3	0.2
<i>for information:</i>		
Unemployment rate in % (ESA-Concept) ²	5.4	5.1
Unemployment rate in % (Federal Employment Agency definition) ²	7.0	6.9
GDP by expenditure (at current prices)		
Consumption expenditure		
Private consumption expenditure	2.3	2.5
Public consumption expenditure	3.6	3.9
Gross fixed capital formation	1.8	0.2
Change in stocks (EURO bn)	-10.7	-8.9
Domestic demand	2.5	2.4
Foreign balance of goods and services (EURO bn)	149.8	166.7
Foreign balance of goods and services (as % of GDP)	5.5	6.1
Gross Domestic Product (nominal)	2.3	2.6
GDP by expenditure (real)		
Consumption expenditure		
Private consumption expenditure	0.6	0.9
Public consumption expenditure	1.0	1.1
Gross fixed capital formation	0.5	-0.8
Machinery and Equipment	-1.3	-2.2
Construction	1.3	-0.3
other plant and equipment	3.8	3.0
Stockbuilding (GDP growth contribution) ³	0.0	0.0
Domestic demand	0.6	0.7
Exports	2.8	0.6
Imports	3.5	1.3
External balance of goods and services (contribution to GDP growth) ³	-0.1	-0.3
Gross Domestic Product (volume)	0.4	0.4
Prices (2005 = 100)		
Private consumption expenditure ⁴	1.7	1.6
Domestic demand	1.8	1.7
Gross Domestic Product ⁵	1.8	2.2
Distribution of gross national income		
<i>(resident concept)</i>		
Compensation of employees	2.4	2.9
Income from self-employment and property	2.3	2.8
National income	2.4	2.8
Gross national income	2.3	2.5
<i>for information (resident concept):</i>		
Employees	0.1	0.8
Total gross wages and salaries	2.7	3.1
Total gross wages and salaries per employee	2.6	2.3
Disposable income of private households	2.3	2.1
Savings ratio in % ⁶	10.3	10.0

1 Up to 2013 results of the Federal Statistical Office; National Accounts Status: January 2014;

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 VConsumer price index, percentage change on preceding year: Annual projection 2013: 1,8 %; Actual outcomes: 1,5 %;

5 Unit labour costs, percentage change on preceding year: Annual projection 2013: 1,5 %; Actual outcomes: 2,2 %;

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

