Federal Ministry
of Economics
and Technology

BUSINESS.
GROWTH.
PROSPERITY.

National Reform Programme 2013

Imprint

Publisher
Federal Ministry of Economics
and Technology (BMWi)
Public Relations
D-11019 Berlin, Germany
www.bmwi.de

Text and editing
Federal Ministry of Economics
and Technology

Status
March 2013

Design and production
PRpetuum GmbH, Munich

Cover photograph
StudioD3x – Digitalstock

The Federal Ministry of Economics and Technology has been awarded the berufundfamilie® audit certificate for its family-friendly HR policy. The certificate is awarded by berufundfamilie gGmbH, an initiative of the non-profit Hertie Foundation.

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Introduction

1. Growth in Germany and growth in Europe are co-dependent. This is why German economic policy focuses on actively boosting growth and stability throughout Europe. Reinforcing the foundations for growth and employment within Germany is equally important. These goals are guided by the principles of the social market economy which favours competition and economic performance while at the same time promoting equal opportunities and social inclusion.

2. To date the German economy has proved encouragingly resilient in a difficult international environment. Employment and prosperity have risen over the past few years and the Federal Government is forecasting continued economic growth for 2013. This strong starting point is an obligation as well as an asset. The Federal Government is therefore dedicated to further enhancing the German economy's competitiveness in order to safeguard growth and employment in the long term. This approach is at the heart of the government's economic policy strategy[1] and an essential contribution to strengthening Europe's economy as part of the *Europe 2020* strategy for smart, sustainable and inclusive growth. Sustainable commercial activity means aligning economic efficiency with ecological and social responsibility.

3. Sustainable growth cannot be achieved without sound finances. The German government is therefore sticking firmly to its policy of pro-growth budget consolidation and has defined clear expenditure priorities for education and research. Another priority area for Germany's economic policy is managing the transition to renewable energy ('Energiewende'). This transition is modelled on a secure, affordable and environmentally sustainable energy supply. The German government is strengthening competition and taking decisive action to tackle the skills shortage through its "Skilled Worker Strategy" (*Fachkräftekonzept*).

4. Positive economic development in Germany depends on Europe returning to steady growth. The Federal Government is therefore committed to ensuring that the newly introduced and enhanced European measures for economic and budgetary monitoring are rigorously implemented. Full use should be made of the instruments available under the imbalances procedure. In certain appropriate situations, the corrective arm of this procedure may be required in addition to the preventive arm. The Federal Government also favours making the stability rules more binding and bolstering individual responsibility and a willingness to implement reforms throughout Europe. With this in mind, the Federal Government welcomes plans to formulate more differentiated, detailed and effective country-specific recommendations in future. The government rejects proposals that would entail mutualisation of liability risks.

5. The National Reform Programme (NRP) represents a central pillar of the European Semester, which was launched by the European Commission with the publication of the Annual Growth Survey on 28 November 2012. The Survey reiterates the priorities defined in the previous year:

- → Pursuing differentiated, growth-friendly fiscal consolidation
- → Restoring normal lending to the economy
- → Promoting growth and competitiveness for today and tomorrow
- → Tackling unemployment and the social consequences of the crisis
- → Modernising public administration

6. These priorities reflect the *Europe 2020* targets and the related Integrated Guidelines. They are also in line with the Country-Specific Recommendations issued by the Council of the European Union on 10 July 2012[2] and the Compact for Growth and Jobs.[3]

1 See the Federal Government's Annual Economic Report 2013.

2 Official Journal of the European Union, published on 24 July 2012 C 219/35.

3 European Council Conclusions, 28/29 June 2012, document EUCO 76/2/12.

7. Germany's National Reform Programme 2013 charts the significant progress made over the past year in Germany, and sets out additional measures planned for this year. Chapter I describes the macroeconomic environment in the period under review and outlines the Federal Government's projection for cyclical development this year. Chapter II reports on national implementation of the Country-Specific Recommendations issued by the Council of the European Union. The progress made in implementing the *Europe 2020* strategy and the related measures inspired by the Integrated Guidelines are described in Chapter III. Chapter IV reviews implementation of the Action Programme 2012 in connection with the Euro Plus Pact and introduces the new Action Programme for 2013. In Chapter V, the use of European structural funds is covered. Finally, Chapter VI describes the steps taken to compile the NRP 2013, with a particular focus on the different stakeholders involved in the process.

8. The structure and contents of the NRP are based on the European Commission guidelines for National Reform Programmes[4] and the European Council Conclusions, 14/15 March 2013.

4 Letter from Secretary-General Catherine Day, 14 January 2013.

I. Macroeconomic context

9. In 2012 Germany registered a growth rate of 0.7 percent in price-adjusted terms, appreciably higher than other growth rates in the eurozone. However, economic momentum declined steadily over the course of the year. This decline was triggered mainly by a significant slowdown in the world economy, and in particular, by uncertainty among market players caused by high levels of debt in the industrial countries. This uncertainty severely affected the propensity of German firms to invest from the start of the year onward. Investment in machinery and equipment suffered as a result (down by 4.4 percent), weakening domestic demand.

10. From October 2012 to March 2013, the Federal Government expects a temporary period of economic weakness, mainly due to the general slowdown in the global and European economies. Once the uncertainty among investors dissipates, companies are likely to set aside their reluctance and start to realise their delayed investments. The German economy's growth rate is expected to pick up again in 2013.

11. The poor winter half-year will put a significant strain on the forecast average growth rate for 2013. In its annual projection for 2013[5], the Federal Government expects growth to amount to 0.4 percent in real terms. Over the course of 2013, this will correspond to a rise of 1.3 percent in the price-adjusted gross domestic product from the fourth quarter of 2012 to the fourth quarter of 2013. This means that the German economy will continue to grow at a substantially faster pace than the eurozone average. In 2014, the economy is likely to gain momentum, with a forecast real growth rate of 1.6 percent. This forecast growth rate assumes there are no further negative developments that could provoke uncertainty among market players.

12. Taking into account the continuing weak development in the eurozone, exports are likely to be restrained at the beginning of 2013. However, export expectations have improved considerably as the outlook for the world economy brightens. This year, the Federal Government is expecting a rise in exports of 2.8 percent in real terms. Thanks to the import component required, a positive development in exports and domestic demand also stimulates an increase in imports of goods and services. These will rise 3.5 percent faster than exports this year in real terms. On balance, real net exports are expected to make a slightly negative contribution to growth of -0.1 percent this year.

13. Economic momentum will therefore mainly be driven by domestic demand. Taking into account increased disposable income in private households, low interest rates and a moderate development in prices, consumer spending and private-sector investment in housing will play a crucial role.

14. Last year, another record level of employment was reached, with 41.6 million gainfully active people. In 2012 the unemployment rate in Germany at an average of 6.8 percent was one of the lowest in the EU[6]. Germany recorded the lowest level of youth unemployment (8.2 percent). When adjusted for cyclical factors, the structural unemployment rate will continue to decline, and will be lower than at any time since the early 1980s in West Germany. The labour market has not been left untouched by the cyclical development. Employment is expected by the Federal Government to expand only slightly as an average for the year, growing by 15,000. Most of the new jobs created this year will again be subject to social security contributions. Given the existing visible contraction in the level

5 A detailed discussion of the Federal Government's macroeconomic projection, which is based in particular on the Code of Conduct for the stability programmes of the member states of the euro area, is included in the German Stability Programme, which is also to be presented to the European Commission in April.

6 Federal Statistical Office and Federal Employment Agency.

of registered unemployment, it will be difficult to reduce unemployment further in the current economic climate. Unemployment will thus remain close to last year's level but rise slightly, by 60,000. This equates to an unemployment rate of 7.0 percent.[7]

15. Against the background of solid income prospects and the robust labour market, the climate for consumer spending remains favourable. Wage trends are clearly heading upward. Gross wages and salaries per employee will rise this year by 2.6 percent (total wage +2.7 percent). Net wages and salaries per employee will rise more appreciably this year, due to the cut in the contribution rate for statutory pension insurance and the increase in the basic tax-free allowance for income tax (up by 2.8 percent). Net wages and salaries per employee have been on the rise again in real terms since 2009.

16. The Federal Government expects moderate changes in the price level. Consumer prices will rise by 1.8 percent this year compared with last year. There will be a moderate increase of 1.9 percent in unit wage costs.

Overview 1: Key figures in the Federal Government's annual projection

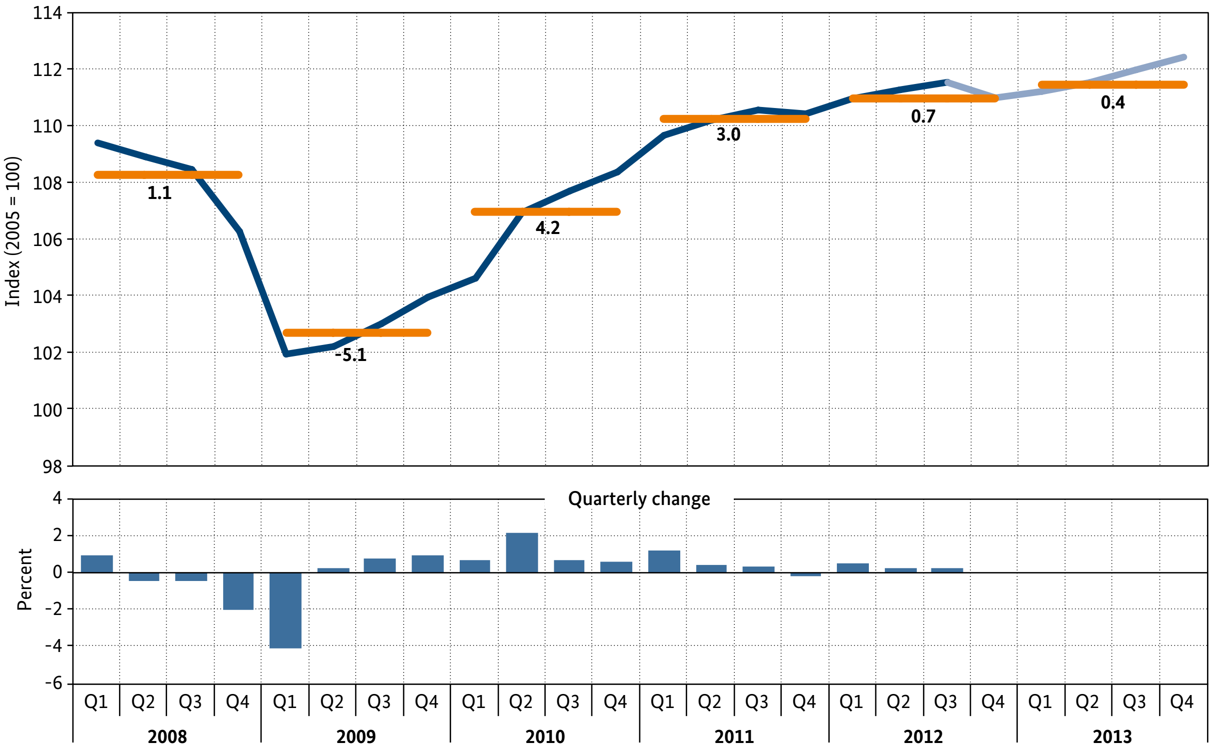
	2011	2012	2013	2014
	Year-on-year changes in percent			
GDP (expenditure approach)*				
Gross domestic product	**3.0**	**0.7**	**0.4**	**1.6**
Consumption expenditure of private households**	1.7	0.8	0.6	1.0
Consumption expenditure of the government	1.0	1.0	1.0	0.9
Gross fixed capital formation	6.2	-2.1	0.5	4.1
of which: machinery and equipment	7.0	-4.4	-1.3	5.6
Construction	5.8	-1.1	1.3	3.2
Domestic demand	2.6	-0.3	0.6	1.5
Exports	7.8	4.1	2.8	4.4
Imports	7.4	2.3	3.5	4.5
Price trends				
Consumption expenditure of private households**	2.1	1.6	1.7	1.8
Gross domestic product	0.8	1.3	1.8	1.7
Total employment (domestic)	**1.4**	**1.0**	**0.0**	**0.2**
for information only: Consumer Price Index	2.3	2.0	1.8	1.8
	Absolute values in millions			
Total employment (domestic)	41.2	41.6	41.6	41.7
Unemployment (Federal Labour Office)	3.0	2.9	3.0	2.9

* Up to 2012, provisional figures from the Federal Statistics Office as at January 2013.

** Including all non-profit organizations.

7 Projection based on figures provided by the Federal Statistics Office; based on the national definition of unemployment according to Section 16 of Social Code II (SGB III).

Figure 1: GDP change in Germany (price-adjusted)



Blue line: Quarterly changes in previous year's prices, adjusted for seasonal and calendar effects
Orange lines: 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: Federal Government's annual projection, January 2013

II. Implementing the Council of the European Union's Country-Specific Recommendations for Germany

17. At a meeting on 28/29 June 2012, the Council of the European Union approved Country-Specific Recommendations for Germany for the period 2012 to 2013.[8] The recommendations were based, in particular, on the European Commission's evaluation of reform efforts made to date, as part of the European Semester 2012.

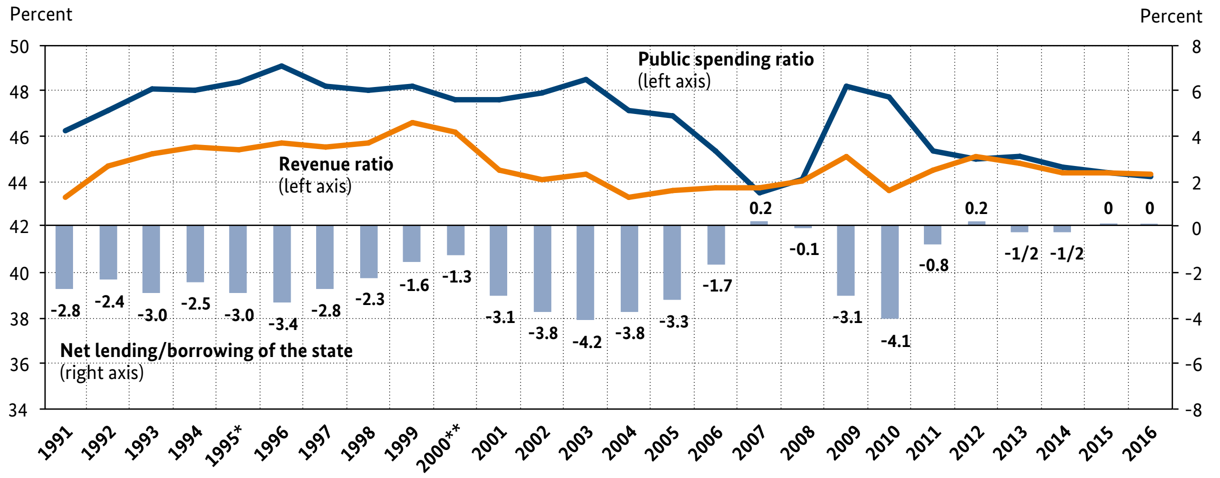
18. The recommendations concern German finance policy, the financial sector, the labour market and the areas of infrastructure and competition. The Federal Government has made good progress in all of these areas, even if some measures need to extend beyond 2013. Several ambitious projects for implementing the Country-Specific Recommendations were successfully launched or completed. These include, for example, implementation of the budgetary rule, further transitioning of the energy supply towards renewables, structural improvements in the financial sector and enhanced childcare. The following is a detailed overview of the implementation of Country-Specific Recommendations for 2012/2013.

1. Public finances

"The Council of the European Union [...] hereby recommends that Germany take action within the period 2012 – 2013 to:

1. Continue with sound fiscal policies to achieve the medium-term budgetary objective by 2012. To this end, implement the budgetary strategy as envisaged, ensuring compliance with the expenditure benchmark as well as sufficient progress towards compliance with the debt reduction benchmark. Continue the growth-friendly consolidation course through additional efforts to enhance the efficiency of public spending on health care and long-term care, and by using untapped potential to improve the efficiency of the tax system; use available scope for increased and more efficient growth-enhancing spending on education and research at all levels of government. Complete the implementation of the debt brake in a consistent manner across all Länder, ensuring timely and relevant monitoring procedures and correction mechanisms."

Figure 2: Expenditure, income and net lending/borrowing of the state



* Excluding capital transfers resulting from the absorption of the debt of the Treuhand trust agencies and housing associations of the GDR. Including this effect, the general government deficit was 9.5 percent of GDP.

** Excluding UMTS revenues. Including this effect, the state budget ran a surplus of 1.1 percent of GDP.

Source: Federal Statistics Office and the Federal Ministry of Finance

8 Council recommendation, 10 July 2012, Official Journal of the European Union, published on 24 July 2012.

Fiscal consolidation and debt rule

19. With its policy of pro-growth budget consolidation, Germany is on the right track. It is adhering consistently to its national and international budget consolidation obligations. The German Stability Programme 2013 discusses this approach in depth.

20. Germany posted a budget surplus in 2012 for the first time since 2007, amounting to 0.2 percent of GDP. Last year the country was already released from the deficit procedure of the European Stability and Growth Pact, which was opened in 2009.

21. Last year, the structural net lending/borrowing of the state (adjusted for cyclical effects and non-recurring effects) showed an even greater improvement than the actual balance. As early as 2012, Germany was able – by a clear margin – to achieve its medium-term objective of a maximum structural deficit of 0.5 percent of GDP (structural surplus for 2012: 0.4 percent of GNP).

22. In the first two years of the debt rule (which is enshrined in the German Constitution), the Federal Government clearly exceeded the targets mapped out in the structural deficit reduction path. As of 2016, the Federal Government will only be permitted to budget for a structural deficit of a maximum of 0.35 percent of GDP on a permanent basis. The Federal Government already met this debt rule target when the budget was implemented in 2012, that is, four years earlier than specified in the German Constitution. In the 2013 federal budget, it also managed to keep structural net borrowings below the ceiling that will apply as of 2016 (0.35 percent of GDP). Building on these results, the Federal Government is sticking to its successful consolidation policy. The main points of the 2014 federal budget and financial plan up to 2017 of 13 March 2013 consequently make no provision for any structural net borrowings as of 2014. The ceiling that will apply permanently as of 2016 will therefore not only be adhered to; it will in fact be significantly higher than the actual value of net borrowing. By proposing these main points, the Federal Government is setting a key milestone in terms of financial policy.

23. According to the debt rule, the budgets of the *Länder* must be balanced without borrowings. A cyclical adjustment of income and expenditure is an option (as it is for the Federal Government), if a legal basis for this is created in the Land law. A transitional period applies to the *Länder* as it does to the Federal Government: they must draw up their budgets in order to meet this balanced budget requirement in 2020. According to these requirements, the *Länder* are themselves responsible for shaping the finer points of these debt rules at *Länder* level. There is no obligation to enshrine the debt rules in the constitutions of the *Länder*. However, the constitutional ban on new borrowings is directly binding on the *Länder*, which means that even if a Land has no specific regulations under Land law, the ban on new borrowings will apply as of 2020.

24. According to the constitutional requirements, the *Länder* are responsible for payments to municipalities and municipal tax sharing. Some *Länder* have established special aid packages for municipalities that are facing particular problems, despite the overall healthy financial situation at local authority level. These packages are aimed at restoring financial viability to the affected municipalities. In this way, *Länder* are actively helping to stabilise the financial situation at local authority level, and thus support budgetary policies for the municipalities that are both sustainable and adapted to intergenerational requirements.

25. By means of its constitutional debt brake and the accompanying provisions under ordinary law, Germany has created arrangements that are geared to comply with the Stability and Growth Pact and the requirements of the Fiscal Compact. The Federal Government has also introduced a law as part of the national implementation of the Fiscal Compact. This will add another safety and correction mechanism at state level to supplement the current set of rules governing fiscal policy. The intention is to enshrine into the Law on Budgetary Principles Germany's permissible structural deficit ceiling of 0.5 percent of GDP – the German medium-term budgetary objective – as defined under the Fiscal Compact and the Stability and Growth Pact. The Stability Council is to monitor compliance with this ceiling and to be supported by an independent advisory committee.

Spending on education and research, public health and care services

26. Investing in education and research is a top priority for both the Federal Government and the *Länder*. The Federal Government is expected to exceed its investment target of 12 billion euros for education and research during this legislative period, with a forecast total of approximately 13.3 billion euros. In 2009 and 2010, expenditure on education and research amounted to 9.5 percent of GDP. Investments in education and research have also become more efficient, for example, as part of the Skills Development Initiative for Germany, the High-Tech Strategy and within the scientific sector (cf. Items 50 and 86 ff., Box 2).

27. In real terms, per capita public health expenditure rose by 2 percent a year in Germany between 2000 and 2010. Germany thus recorded a lower increase in spending than most other OECD countries. Nevertheless, the health system in Germany continues to meet high standards.[9]

28. Positive financial trends continued in the statutory health insurance system (GKV) in 2012. The health insurance funds could continue accumulating financial reserves until the end of 2012, while the national health fund also significantly increased its financial reserves over the past few years.

29. This trend within the statutory health insurance system can partly be explained by the dynamic growth in employment and wages in recent years. It has also been enabled by efficiency gains within the system, brought about by Federal Government reforms. Under the health care financing law (*GKV-Finanzierungsgesetz*) and the Act on the Reform of the Market for Medicinal Products *(Arzneimittelmarktneuordnungsgesetz*), short-term measures for limiting expenditure growth and longer-term structural reforms have been implemented as early as 2011. These reforms have further improved the standard and financial viability of the German health system.

30. The social insurance system for long-term care has run a surplus for the past few years as a result of the increase in contributions and favourable economic conditions (310 million euros in 2011; 100 million euros in 2011). By the end of 2012, the insurance fund had financial reserves of approximately 5.5 billion euros, or the equivalent of 2.9 months' expenditure.

31. As part of its reforms to long-term care insurance, the contribution rate was increased slightly from 1.95 percent to 2.05 percent as from 1 January 2013 to finance planned improvements in benefits. Therefore additional receipts will initially exceed additional expenditure in the years ahead. The Federal Government has also introduced state subsidies for private supplementary cover for long-term care, effective from 1 January 2013. These subsidies are an important means of helping to ensure sustainable financing of long-term care services.

Efficiency of the tax system

32. Measures are being implemented by the Federal Government to improve the efficiency of the tax system. With the Act to Simplify and Amend Corporate Taxation and the Tax Rules on Travel Allowances, corporate taxation is being refined in a manner that promotes growth and competition. The revenue-neutral simplification of the rules surrounding fiscal unity for income-tax purposes relieves the burden on public administration and taxpayers. Thanks to the increase in the carryback amount, businesses can avail of additional liquidity in times of crisis. The simplification of rules relating to the tax treatment of travel allowances in the areas of travel costs and expenses for additional meal and accommodation has also greatly helped to reduce red tape.

33. As a result of the law enacting the ruling of 20 October 2011 on case C-284/09, which was brought before the European Court of Justice, free-float dividends (corporation income from shareholdings of less than 10 percent in another corporation) are now subject to tax. Domestic and foreign shareholders are thus placed on the same footing.

9 See the OECD Health Data 2012.

2. Financial markets

"The Council of the European Union [...] hereby recommends that Germany take action within the period 2012 – 2013 to:

2. Address the remaining structural weaknesses in the financial sector, inter alia by further restructuring of those Landesbanken which are in need of an adequately funded viable business model while avoiding excessive deleveraging."

Structural improvements in the financial sector

34. With legislation to strengthen financial oversight (*Gesetz zur Stärkung der deutschen Finanzaufsicht*), the Federal Government has improved macroprudential oversight in particular, which focuses on stability of the financial system as a whole (cf. Item 122). Measures including the establishment of a financial stability committee have been implemented to create a new basis for cooperation between key institutions in the area of financial stability.

35. Furthermore, the Federal Government has adopted the second and the third Financial Market Stabilisation Act to avert threats to the financial system (cf. Item 123). This extends the option for granting refinancing guarantees and direct capital aid to banks, for example, through to the end of 2014. At the same time, the Special Fund for the Stabilisation of Financial Markets (SoFFin) has been closely integrated with the restructuring fund, in order to relieve the burden on taxpayers.

36. The Federal Government is committed to making further improvements to the financial markets. With the adoption of the Act to Promote and Regulate a Fee-Based Advisory Service for Financial Instruments, it has made the concept of investment advice more transparent for the consumer. With a clear distinction drawn between the concepts of (generally commission-based) "investment advice" and "fee-based investment advice" customers should immediately recognise what type of service is on offer and how this service is renumerated. Meanwhile, mandatory licences for high-frequency traders, requirements for trading venues and a ban on manipulative trading practices are designed to curtail, among other things, extreme price movements and market abuse in high-frequency trading. These matters are regulated by the Act on the Prevention of Risks and Abuse in High-frequency Trading.

37. International measures are required to supplement the national measures implemented. The government continues to press for the capital adequacy standards, Basle III, to be introduced swiftly at international level and rapidly implemented in European and national law.

38. An effective European banking supervisory authority is required at European level. The compromise agreed by EU Finance Ministers on 13 December 2012 ensures a separation of tasks between the fields of monetary policy and banking supervision under the umbrella of the ECB. The Federal Government is ensuring that this compromise is realised in practice.

Even after the banking supervision authority has been set up, the European Stability Mechanism (ESM) in particular can only be allowed to provide direct assistance to banks once all other means of restructuring have been exhausted. Responsibility rests first and foremost with the owners of the banks themselves, followed by the creditors (including the non-subordinated creditors), then the national banking sector through resolution funds accumulated from bank levies, and after that the relevant states. The ESM can only provide conditional aid as a last resort if there is a risk to the stability of the overall European financial system and its member states.

39. In September 2012, the German and French governments submitted a proposal to the European Commission to pioneer a financial transaction tax under the enhanced cooperation procedure. This tax is intended to ensure that the financial sector bears some of the costs of the financial crisis. On 22 January, the Council adopted a decision authorising eleven member states to go ahead with enhanced cooperation on a common system of financial transaction tax (FTT). The tax is to be imposed on all financial instruments, wherever possible. It is important in this context to prevent the tax from having negative repercussions on instruments of pension provision, small investors and on the real economy.

Landesbanken

40. Further consolidation took place in the Landesbank sector in 2012: the state-owned Landesbanks continued to reduce their total and risk assets, while concentrating their operational activities by eliminating non-core business, investments and branch offices. According to the final report issued by the European Banking Authority (EBA) in October 2012 on the recapitalisation exercise, each of the Landesbanks involved achieved a core tier 1 capital ratio of over 9 percent.

41. The resolution of the former WestLB in 2012 had a significant impact on the Landesbank sector. Its savings banks business was combined in a 'Verbundbank' and transferred to the Landesbank Hessen-Thüringen (Helaba), which has thus acquired more heft as a central savings bank. In July 2012, the European Union also approved final restructuring aid packages for the Landesbanks (Bayern LB, Nord LB).

3. Labour market participation

"The Council of the European Union [...] hereby recommends that Germany take action within the period 2012 – 2013 to:

3. Reduce the high tax wedge in a budgetary neutral way, in particular for low-wage earners, and maintain appropriate activation and integration measures, notably for the long-term unemployed. Create the conditions for wages to grow in line with productivity. Take measures to raise the educational achievement of disadvantaged groups, notably through ensuring equal opportunities in the education and training system. Phase out the fiscal disincentives for second earners, and increase the availability of full-time childcare facilities and all-day schools."

Reducing the high tax wedge

42. Consistent, pro-growth fiscal consolidation coupled with positive wage developments and employment trends have made it possible to reduce the tax and contribution burden. In total, the Federal Government is providing relief of close to 8 billion euros to private individuals and businesses this year. Effective from 1 January 2013, the contribution rate for statutory pension insurance was reduced from the previous rate of 19.6 percent to 18.9 percent (cf. Item 126). The Federal Government also abolished the quarterly medical consultation fee (*Praxisgebühr*) at the start of the year. This will save the public a total of approximately two billion euros a year and also substantially reduce the administrative workload of doctors and health insurance funds. The Federal Government has raised the personal basic tax-free allowance for income tax for 2013 and 2014 (cf. Item 121).

43. Reflecting general wage trends, the monthly pay threshold for mini-jobs – which had remained unchanged since 2003 – was increased by 50 euros with effect on 1 January 2013. The monthly threshold for midi-jobs was similarly increased.

Tackling long-term unemployment

44. Between 2008 and 2011, a reduction of approximately 27 percent in the long-term unemployed figures was achieved.[10] The extensive labour market reforms implemented in Germany over the past ten years have played a large part in this achievement. Germany is the only country in the European Union that has managed to make a serious dent in unemployment and increase employment since 2007. Roughly 28.9 million individuals were in jobs requiring social security contributions in 2012: the highest rate recorded in the past 20 years[11] (cf. Item 13).

10 Eurostat has not yet provided data on long-term unemployment for 2012. According to the Federal Employment Agency's figures, which are based on the national definition of unemployment under Section 16 of the German Social Code (SGB) III, long-term employment fell by 22 percent from 2008 to 2012.

11 Taking 30 June as the qualifying date in each year, to represent the year as a whole.

45. The Federal Government is determined to continue with its extensive efforts to further reduce long-term unemployment. Its strategy for tackling long-term unemployment is also designed to combat poverty and is described in detail in Chapter III (cf. Item 104 ff.).

Wage trends in Germany

46. The Council's recommendation on wage trends is primarily aimed at the social partners, that is, the parties to collective bargaining agreements. In Germany, the system of free collective bargaining is guaranteed by the German constitution. It ensures that wages are differentiated and adapted to market requirements.

Raising the educational achievements of disadvantaged groups, creating equal opportunities

47. To integrate young people in the labour market, the Federal Government has long been an advocate of targeting young people at the earliest stage possible. This approach reflects the current employment policy objectives of the EU and the Council recommendation of 28 February 2013 on introducing a Youth Guarantee.

48. Germany's dual system of vocational education and training offers its citizens broad access to professional training. This is an important contributory factor to Germany's relatively low (in European terms) youth employment of 8.2 percent in 2012 (February 2013, compared to 22.9 percent in EU27 countries and 23.2 percent in the eurozone). The system is supplemented by programmes at government, *Länder* and local authority level, including for example, a universal career entry support programme planned for the medium-term (cf. Item 104).

49. The National Pact to Promote Training and Young Skilled Workers (National Training Pact) is intended to tap into all available training opportunities and ensure that young people with weaker prospects are helped to find a training place. It thus plays a pivotal role in providing equal opportunities. The Federal Government and the *Länder* are also promoting the educational, occupational and social integration of disadvantaged young people. Other programmes are geared towards the skills development of unskilled and semi-skilled workers. The Federal Government aims to intensify support for initial vocational training for young adults without a vocational qualification. Over the next three years, this support will enable 100,000 young adults aged between 25 and 34 to upgrade their skills and achieve certification.

50. Providing free access to education and individual support to children from an early age are the keys to creating equal opportunities. As part of the joint Skills Development Initiative, the Federal Government and *Länder* have worked together to develop and implement various measures ranging from the promotion of early childhood education to continued training (cf. Box 2). These measures include safeguarding a specific socio-cultural subsistence level for children, adolescents and young adults, as required under the constitution. In 2011, the education and participation package[12] was introduced for this purpose, for families with low or no income. Increasing numbers of children and adolescents are benefitting from this package's ongoing availability.

51. Between 2006 and 2011, the percentage of pupils leaving school without a Hauptschule leaving certificate dropped from 8 percent to 6.2 percent. A core objective of the state educational system is to provide a wide range of programmes that promote students' overall education, skills and capabilities, and thus tackle educational deprivation and a lack of support in homes. The Federal Government and the *Länder* have launched a raft of comprehensive support programmes for this purpose, which are partially co-funded by aid from the European Union. Administrative structures in the educational sector have been modernised to promote more broad-based participation in the education system. As a result, the process of coordination between the various stakeholders is improving and better educational programmes are being delivered. The government has kick-started this process with its 'Local Learning' programme (*Lernen vor Ort*). To further

12 With reference to Book 2 and 12 of the German Social Code and the Federal Child Benefits Act.

reduce the proportion of children leaving school without a qualification, the *Länder* have agreed a joint support strategy (cf. NRP 2012 Item 129). One of the guiding principles of this support strategy is to increase the availability of time for learning. In addition, the *Länder* are also devoting considerable resources to increase the number and improve the quality of all-day programmes at schools. During the 2010/2011 school year, just over half of all schools offered all-day programmes (51 percent). This represents an increase of over eight percent compared to the previous school year.

Incentives for second earners

52. Married couples can choose whether to be assessed for income tax jointly under the income splitting method or individually. Income splitting gives married couples the option to decide which portion of their income to contribute to the family income and family work, without suffering any adverse tax consequences. It is thus a neutral procedure that does not apply taxation using gender-specific criteria as to which married partner generates the household income. According to the decisions of the Federal Constitutional Court, this procedure is not an infinitely adjustable tax concession, but a sound taxation approach, which is based on Article 6.1 of the Basic Law that requires the special protection of marriage and on Article 3.1 of the Basic Law that governs the economic potential of the married couple.

53. The income splitting method also applies to withholding wage taxes. Thanks to the marginal burden or 'Faktorverfahren' introduced in 2009, a couple's tax burden can be distributed more precisely in line with each married partner's share of annual income, as part of the withholding wage tax process. This approach can reduce the overall tax burden for married couples with lower incomes who often fall into tax class V and are subject to a relatively high marginal tax rate. Based on the marginal burden, tax deductions are therefore very closely aligned with the overall annual tax liability that accrues over the calendar year. By opting for the marginal burden approach, people can thus avoid having to make high corrective payments in connection with their income tax assessment and also possible avoid making advance income tax payments (cf. NRP 2012 Item 38).

Expanding day care services for children

54. The Federal Government, the *Länder* and municipalities are pressing ahead with the needs-oriented expansion of day care services for children over one. Since this expansion is making it easier for many parents to combine work and family commitments, it is also helping to increase participation in the workforce. It is the aim of the Federal Government, *Länder* and municipalities to provide needs-based care facilities for the under-threes by 1 August 2013. Recent parent surveys reveal that childcare facilities are now required for 39 percent of all infants nationwide, up 4 percentage points on initial estimates and around 11.4 percentage points higher than the actual rate of provision reported in March 2012 (27.6 percent).

55. The Federal Government is providing investment funds to the *Länder* for the additional 30,000 spaces needed. Each year thereafter it will bear some of the operating costs that have increased as a result. This means that the Federal Government will have contributed a total of roughly 5.4 billion euros to the costs of expansion (investment and operating costs) between 2008 and 2014. As of 2015, the Federal Government's annual share of the operating costs will amount to 845 million euros. The *Länder* are in turn also making 500 million euros of additional investment funds available for expanding childcare facilities; notably financing the bulk of operating costs in the long term.

56. By introducing a *10-point programme*, the Federal Government has helped accelerate the expansion of child day care facilities. This programme encompasses all the measures for a range of services to meet requirements and eliminates obstacles to expansion. It also helps businesses to provide options for childcare. In addition to helping increase the number of places, the Federal Government is also providing support to the *Länder* in terms of raising the standard of services and maintaining high-quality childcare in the long term.

4. Infrastructure and competition

"The Council of the European Union [...] hereby recommends that Germany take action within the period 2012–2013 to:

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

Strengthening competition

57. The Federal Government is committed to boosting free trade and healthy competition, two core strands of its economic policy. With the Amendment to the Act against Restraints on Competition (GWB), it is modernising competition law, in particular with regard to merger control and monitoring to prevent the abuse of market dominance. The Act against Restraints on Competition applies to all sectors, including the service sector.

Restructuring the energy supply in a cost-efficient manner

58. Germany's energy policy is based on a secure, affordable and environmentally sustainable energy supply. Drawing on the 2010 Energy Concept, the Federal Government launched its programme for fundamental restructuring of Germany's energy supply towards renewable energy and higher energy efficiency ("Energiewende") in 2011. The principle underpinning competition in the energy sector is to ensure that all consumers can access energy in the most cost-effective manner possible.

59. If the energy reforms are to succeed, there must be a thorough reform of the Renewable Energy Sources Act and also further refinements to the existing framework for the electricity market. Intensive discussions on the key challenges are being held within the Federal Government and with the *Länder*. A thorough reform of the Renewable Energy Sources Act must aim to ensure a high degree of investment security and to further improve the interplay of renewable energy with the other sources of energy, particularly in relation to the electricity grid and the power plants that provide guaranteed output, as well as storage technologies. At the same time, such a reform must seek to restrict the costs to a reasonable level. The reform should permit the expansion of renewables in a systematic and cost-efficient manner in line with the Federal Government's objectives.

60. To safeguard the energy supply as the proportion of renewables grows, comprehensive expansion of the grid network is required, in addition to extensive optimisation and strengthening of existing power lines. The Grid Development Plan forms the basis of this expansion. This plan was submitted by the four transmission system operators in 2012 and subsequently reviewed and approved by the Federal Network Agency. It was used to draft a Federal Requirements Plan Act, which establishes a legal basis for expansion requirements at the transmission system level. Another piece of legislation, the Grid Expansion Acceleration Act (NABEG), allows for streamlined planning and approval processes that will apply to the cross-border and cross-*Länder* power lines included in the Federal Requirements Plan. The Federal Network Agency will have the authority to centrally plan and authorise power lines that cross *Länder* borders in future. In addition, the public is being involved in projects at an early stage in order to boost public acceptance and the transparency of grid expansion. On another positive note, the connection to the grid of offshore wind farms has been improved and accelerated.

61. According to the national Gas Grid Development Plan 2012 (NEP Gas 12), approximately 1,300 kilometres of new pipelines for natural gas will be constructed by 2022. Since these expansion measures have been confirmed by the Federal Network Agency, the transmission system operators are obliged to implement them by 2022.

62. Investment in the building stock must make long-term financial sense for the owners, and allow affordability for tenants. For this reason, the Federal Government is relying on financial incentives for investors and private households, and is providing 1.5 billion euros a year in the CO_2 Building Modernisation Programme until 2014. As of this year, more grants are available (to the amount of 300 million euros) particularly to support highly efficient modernisation projects carried out by owner-occupiers.

63. In this regard, the Federal Government is revising the legislation on energy conservation in terms of economic viability. In order to support the market launch of highly efficient horizontal technologies, the Federal Government has launched a programme of investment grants. Support is also to be provided from this year on towards investment in energy-efficient production processes that alleviate climate change and towards energy management systems (EMS) in small and medium-sized firms that are not legally obliged to set up an EMS.

64. Energy conservation can save money for households. For this reason, the Federal Government is funding the provision of advice on energy efficiency through advice centres. In addition, the new, free, onsite Energy Check Programme was launched in 2012 for lower-income households. As of this year, the programme includes a solar check as well as the basic check, building check and boiler check.

65. The Federal Government is also promoting research and development in the area of energy technologies. It aims to make these technologies more affordable, while also helping to develop and launch new technical solutions that can play a major role in securing energy supply.

Competition in the railway system and investment in transport infrastructure

66. In the area of transport services, the share of competitors in the rail freight sector has increased slightly to 26 percent and to roughly 13 percent in the regional rail passenger sector. The proportion of competitors operating in the long-distance rail passenger sector is less than one percent. Overall, there has been an improvement in the competitiveness of the railway market in Germany in recent years. Germany's railway market compares favourably to other European markets in this regard.

67. The national requirements on railway organisational structure comply with the applicable EU requirements on separation.[13] Public funds must not be transferred between network operators and railway undertakings.

68. The Federal Government intends to further enhance competition in the German railway system. Through the Railway Regulation Act, the Federal Network Agency will in future impose limits on infrastructure managers in relation to the fees they can charge railway undertakings for the use of railway tracks and stations. This regulation should act as an incentive for infrastructure managers to reduce their costs. In addition, easier market access for railway undertakings is to be enabled, while the Federal Network Agency is to be granted greater powers as a regulatory body.

69. Apart from fostering competition in the railway sector, investments in transport infrastructure also play a vital role in the overall competitiveness of the German economy. Under the Infrastructure Acceleration Programme II, the Federal Government will provide an additional 750 million euros for new construction and upgrading of Germany's transport routes as of 2013. When combined with the Infrastructure Acceleration Programme I, the total additional funding available in 2012 and 2013 will amount to 1.75 billion euros.

13. This view was confirmed by the ruling of the European Court of Justice on 28 February 2013 in an infringement procedure brought against Germany (case C-556/10).

Competition in the services sector

70. The domestic services market harbours great potential for growth, especially in the area of services based on network infrastructure. For this reason, the Federal Government is further considering the elimination of excessive constraints. Essential and appropriate regulations that serve, for example, to safeguard a level of training, actively provide consumer protection or ensure freedom to exercise a profession independently, are to be retained.

71. The internal market for services cannot be strengthened through legal regulations alone. Improving "soft" factors is also important: such as building trust among consumers in services providers from other member states.

72. Competition has become more intense in the services sector over the last few years. Comprehensive reforms have been implemented within the liberal professions: for example, bans on advertising have been relaxed or completely eliminated, while rules on price regulation have also been liberalised, for lawyers, among others. According to the laws on chimney sweeping, regulation of fees is to be limited to the few remaining government tasks performed by authorised district chimney sweeps.

III. Europe 2020 strategy: progress to date and measures

73. The Federal Government has identified the five headline targets of the *Europe 2020* strategy for smart, sustainable and inclusive growth in Europe as important objectives for German policy. Furthermore, the Federal Government and the *Länder* have set out additional national quantitative goals, which are in fact more ambitious than the headline targets. Box 1 provides an overview of these goals and indicates the progress made towards each goal.

74. Of course, individual quantitative indicators can only provide limited information in relation to evaluating the relevant political fields. In terms of evaluating progress towards national objectives, other factors and measures – particularly those of a qualitative nature – must also be taken into account.

75. As the table illustrates, Germany made further progress in relation to implementing the *Europe 2020* strategy over the past year, in each of the five core areas. The following section outlines the measures taken, in line with the Integrated Guidelines for growth and prosperity, to achieve this progress.

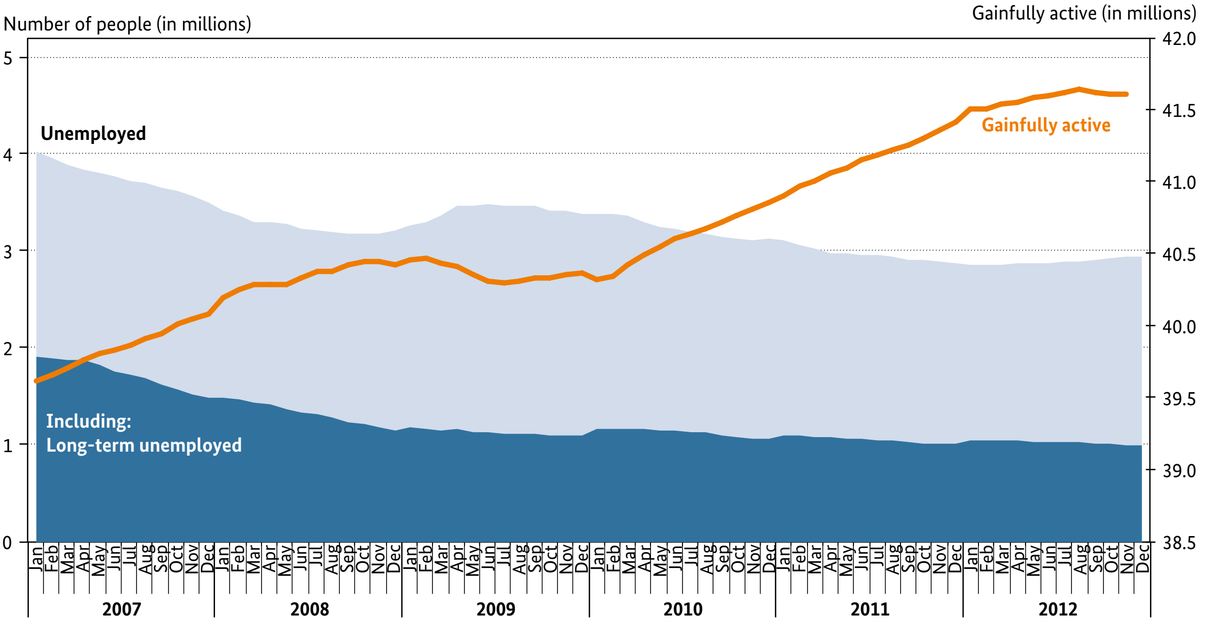
1. Foster employment – National Job Plan

76. The goals of securing and increasing employment are keystones of Germany policymaking. Germany has already made considerable progress in relation to the employment rate (cf. Box 1):

Box 1: Quantitative goals defined under the *Europe 2020* strategy and current progress towards goals

EU 2020 headline targets	EU-wide indicators	National indicators (if different)	Status of quantitative indicators
1. Foster employment	→ Employment rate of 75 percent for people aged 20 – 64; → Greater participation of young people, older workers, low-skilled workers and migrants;	→ Employment rate of 77 percent for people aged 20 – 64; → Employment rate of 60 percent for older people aged between 55 and 64; → Employment rate of 73 percent for women;	→ Employment rate for people aged 20 – 64: 76.3 percent (2011) or 77.1 percent (third quarter of 2012), see Figure 3; → Employment rate for older people aged 55 – 64: 59.9 percent (2011) or 62.1 percent (third quarter of 2012); → Employment rate for women: 71.1 percent (2011) or 71.7 percent (3rd quarter of 2012);
2. Improve the conditions for innovation, research and development (R&D)	→ R&D expenditure of 3 percent of GDP; → Improve the conditions for R&D;	→ R&D expenditure: 3 percent of GDP (two-thirds from the private sector, one third from the public sector); → Spending on education and research until 2015: 10 percent of GDP;	→ R&D expenditure: 2.9 percent of GDP (2011) – two-thirds from the private sector, one-third from the public sector (see Figure 4); → Spending on education and research: 9.5 percent of GDP (2010);
3. Reduce greenhouse gas emissions and increase energy efficiency and energy from renewables	By 2020: → Reduce greenhouse gas emissions by 20 percent (or 30 percent if applicable) compared to 1990 levels; → Increase the share of renewables in final energy consumption to 20 percent; → Increase energy efficiency by 20 percent in relation to the forecast development;	→ Reduce greenhouse gas emissions by 2020 by 40 percent compared to 1990 levels, and by 80 percent by 2050; → Increase the share of renewables to 18 percent of gross final energy consumption by 2020, to 60 percent by 2050 and to at least 80 percent in the electricity sector; → Reduce primary energy consumption by 20 percent by 2020, and by 50 percent by 2050, compared to 2008 levels;	→ Greenhouse gas emissions: reduced by 25.6 percent compared to 1990 levels (2012); → Share of renewables: accounts for 12.6 percent of gross final energy consumption (2012) and 21.9 percent of gross electricity generation (2012); → Primary energy consumption: reduced by 2.1 percent compared to 2008 levels;
4. Improve education levels	→ Improve education levels, in particular, reduce the proportion of early school leavers and people leaving vocational training to below 10 percent; → Increase the percentage of 30 to 34 year olds with a tertiary or equivalent educational qualification to at least 40 percent;	→ Increase the percentage of 30 to 34 year olds with a tertiary or equivalent educational qualification to 42 percent;	→ Proportion of early school leavers and people leaving vocational training for 2011: 11.5 percent; → Percent of 30 to 34 year olds with a tertiary or equivalent educational qualification: 42.2 percent (2011);
5. Promote social inclusion, in particular by reducing poverty	→ Lift at least 20 million people out of the risk of poverty and exclusion.	→ Reduce the number of long-term unemployed by 20 percent by 2020 compared to 2008 levels.	→ Reduction of 27 percent in the number of long-term unemployed between 2008 and 2011.

Figure 3: 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 Statistics Office

- In terms of the employment rate for men and women aged between 20 and 64, Germany has already exceeded the European target and is fast approaching its higher national target.
- The employment rate for older people aged between 55 and 64 years old is currently above the national target.
- The employment rate for women in Germany has risen steadily over the past few years and now stands at almost 10 percent points higher than in 2001. The total number of women in gainful employment is approaching the national target value defined in the *Europe 2020* strategy.

General economic environment

77. Functioning competition, open markets, a reliable system of labour law, economic freedom and individual responsibility must be the underlying principles on the labour market. Germany has a good track record in this area. Greater flexibility and resilience within the labour market are important outcomes of the reforms implemented in recent years. The recipe for a successful labour market includes the system of free collective bargaining, which is guaranteed by the German constitution. Wage agreements are a matter for the social partners. The responsible and flexible attitude shown in all situations by the parties to collective bargaining agreements has made a key contribution to Germany's employment upturn (see Figure 3).

The level of gainful activity has been rising almost without interruption for more than half a decade, while unemployment and long-term unemployment have fallen. The only disruption to this trend occurred during the economic and financial crisis in 2008/9. However, even then, the labour market remained resilient.

78. The Federal Government has taken effective action to strengthen the functioning of the labour market in recent years. Labour market instruments have been reformed, the Federal Employment Agency's activities have been optimised and streamlined (cf. Item 108), and greater work incentives are available. In particular, the Federal Government has reduced the high tax wedge for employees (cf. Items 42 and 121) and is supporting day care services for children (cf. Item 54 ff.).

Tapping into domestic employment potential

79. Securing the supply of skilled labour is also a key element of Germany's employment strategy. Demographic change must not become an impediment to growth. The Federal Government's *Skilled Workers Strategy* is comprehensively geared towards averting shortages of skilled labour and motivating individuals through new opportunities (see NRP 2012 Item 106). It focuses on unlocking domestic employment potential more comprehensively than before. The *Progress Report on the Skilled Workers Strategy*, which was adopted by the Federal Government for the first time in January 2013 and will be published annually in future, describes the progress made and measures implemented. To accompany the Skilled Workers Strategy, the government is also promoting the *Skilled Labour Initiative*, a broad-based, high-profile information and mobilisation campaign.

80. Improving the possibilities for parents to combine career and family commitments is a central ingredient of the Federal Government's Skilled Workers Strategy. Women represent the largest pool of potential skilled labour in Germany and are the demographic group that can be mobilised most quickly. For this reason, the Federal Government is promoting a family-friendly working environment and also helping women to return to work. The Federal Government also wishes to enhance family-support services and household-related services.

81. Over the past few years, the Federal Government and the *Länder* have committed themselves to increasing the percentage of women in management positions. They will continue to make the necessary efforts to ensure fair participation of women in the top jobs in industry. At the invitation of the Federal Government, almost all the companies on the DAX 30 Index set themselves specific targets for the promotion of women to management positions below board level. Furthermore, the Federal Government is also helping to bring about the necessary changes in the business community by implementing a large number of projects and support measures. The Federal Government is reinforcing the process by inspecting measures on both a voluntary and legal basis, to ensure that the proportion of women in management positions can be increased at all levels within industry.

82. Specific measures have been designed to promote the integration into the labour market of unemployed people with severe disabilities who possess academic and professional qualifications.

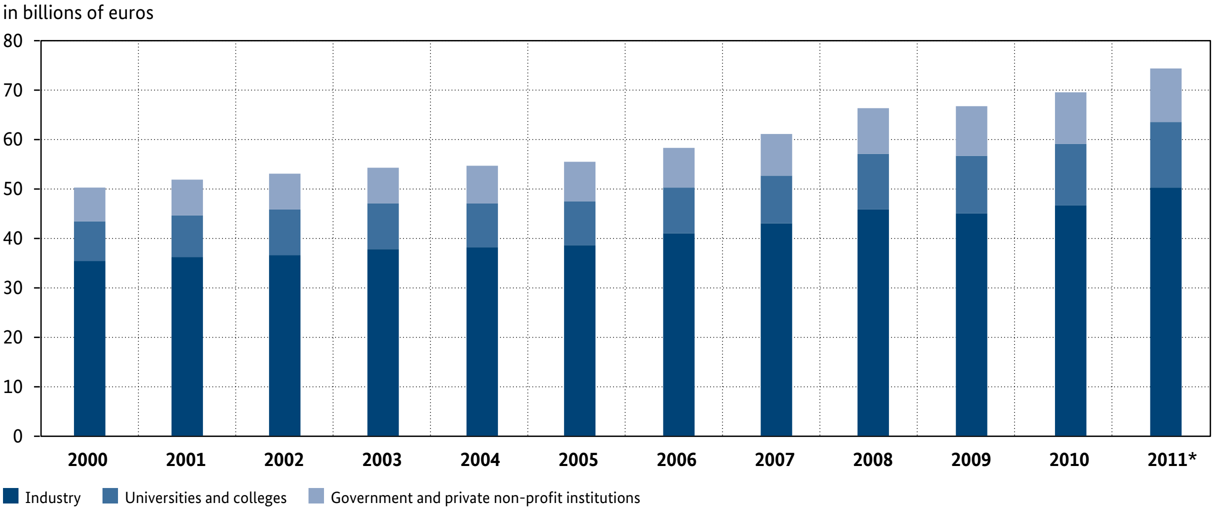
Facilitating qualified immigration

83. A smart immigration policy is another prerequisite for ensuring the supply of skilled labour in Germany. The Federal Government realigned its immigration policy last year with the *Act to Implement the EU Directive on the Conditions of Entry and Residence of Third-Country Nationals for the Purposes of Highly Qualified Employment* with a view to attracting skilled workers to the country. This law makes immigration easier for non-EU skilled workers with academic qualifications as of 1 August 2012 (cf. Item 127). In doing so, the Federal Government took full advantage of the flexibility afforded by the Directive with the EU Blue Card system.

84. The *Act to Improve the Assessment and Recognition of Professional Qualifications Acquired Abroad* and the relevant *Länder* legislation serve to expedite and simplify the process for assessing and recognising foreign vocational credentials. The aim is to ensure that the labour market sufficiently leverages the skills and qualifications of individuals living in this country and that their integration is facilitated. Information on this topic has been published by the Federal Government through various Internet platforms. It has also intensified its efforts abroad to recruit talented professionals for the German labour market. Since 1 January 2013, the Federal Government is promoting the professional mobility of young people in the EU who want to work in Germany through the MobiPro-EU programme.

85. Demographic changes mean that organisational rethinking and adjustments are required, both among companies employing an increasing number of older workers and also among the institutions that provide services to an ageing population. Through its *Demographic Strategy*, the Federal Government is engaging all forces in society to cope with the challenges of demographic change. The *Länder* are also committed to the strategy. In particular, the social partners are called upon to promote the earning capacity and employability of their employees over the course of their entire working lives and also to support gainful

Figure 4: R&D spending from 2000 to 2011



* Provisional figures for industry, estimates for universities/colleges and government

Source: Federal Statistics Office, Status: December 2012

employment of older employees. The Federal Government is lending support in this area through activities conducted under the *New Quality of Work* initiative.

2. Improve the conditions for innovation, research and development

86. The Federal Government's spending on research and development (R&D) has been rising steadily; in 2012, it amounted to approximately 13.7 billion euros. As a proportion of GDP, spending on research and development is roughly 2.9 percent (2011), a figure well above the EU average of 2 percent and close to the target set in the *Europe 2020* strategy. Distribution of spending between the private and public sectors is also developing in line with national objectives (cf. Figure 4). In terms of the proportion of overall expenditure on research and development, Germany has almost achieved its objective (cf. Box 1).

87. Various measures have contributed to this development. The High-Tech Strategy encompasses the Federal Government's R&D activities in five high-demand areas: climate/energy, health/nutrition, communications, mobility and security (see NRP 2012 Item 91). Under the Action Plan for the High-Tech Strategy, specific scientific and technological goals have been defined for ten forward-looking projects. These goals are underpinned by measures implemented by government, industry and the scientific sector. As part of the High-Tech Strategy, an innovation policy plan has been drafted to boost Germany's already impressive innovative capabilities. The *Länder* have also developed and successfully implemented new strategies to fortify their innovation centres. These *Länder* programmes are delivering a fresh and sustainable impetus to research and innovation and in some cases, setting best-practice examples for future programmes.

88. To provide further support to innovative small and medium-sized companies, the Federal Government is continuing the Central SME Innovation Programme (ZIM) in 2013 with funding of 500 million euros. Funding is provided, for example, for R&D projects carried out by individual companies or collaborative projects, and is not restricted to particular technologies or branches. The "SME-innovative" funding initiative was expanded again in 2012 and given a new substantive focus; in 2012, funding of over 100 million euros was made available to small and medium-sized companies for cutting-edge projects. The EXIST programme has also allocated approximately 40 million euros in 2013 to help fund university-based start-ups.

89. The Federal Government and the *Länder* are promoting education and research at non-university scientific establishments and at universities and colleges. The Academic Freedom Act has significantly reinforced the autonomy and decision-making powers of the non-university academic establishments. These now have considerable scope to apply their own approach to recruitment, research facilities and conducting collaborative projects. This freedom is an important component in terms of international competition for top talent, future-oriented research projects and infrastructure.

90. The Joint Initiative for Research and Innovation enables scientific and research organisations to pursue strategic goals and investigate new fields. To this end, the Federal Government and the *Länder* have increased the annual aid provided to the following large scientific and research organisations by 5 percent from 2011 to 2015: Hermann von Helmholtz Association of National Research Centres (HFG); Max Planck Society (MPG), Fraunhofer Society (FhG), Leibniz Science Association (WGL) and the German Research Association (DFG).

91. In June 2012, the funding decision for the third and final round of the Excellence Initiative for Higher Education Establishments was made: 39 universities from 13 *Länder* were successful in their submissions. In 2013, these universities are set to receive approximately 360 million euros from the Federal Government alone. Last year, the winners of the competition were also selected as part of the *Research Campus* funding initiative.

92. The Federal Government is maintaining a key focus on modern information and communication networks. In May 2012, the revision of the Telecommunications Act entered into force. This supplements the Federal Government's Broadband Strategy and optimises the framework for the expansion and construction of high-speed networks. It also creates incentives for investment in new networks.

As part of its *Deutschland Digital 2015* ICT strategy (cf. NRP 2012 Item 92) and the *Digital Economy* Action Programme, launched at the end of last year, Germany will be developing an *Intelligent Networks* strategy, based on the recommendations of the IT Summit. The aim is to tap into the potential of information and communication technologies, especially in areas like energy, health care, transport, public administration and education. Greater cooperation between all responsible parties will assume an important role in this process (for example, within the IT Planning Council).

93. The Federal Government is also continuing to foster the development of electric mobility. It is focused on supporting research and development in this area.

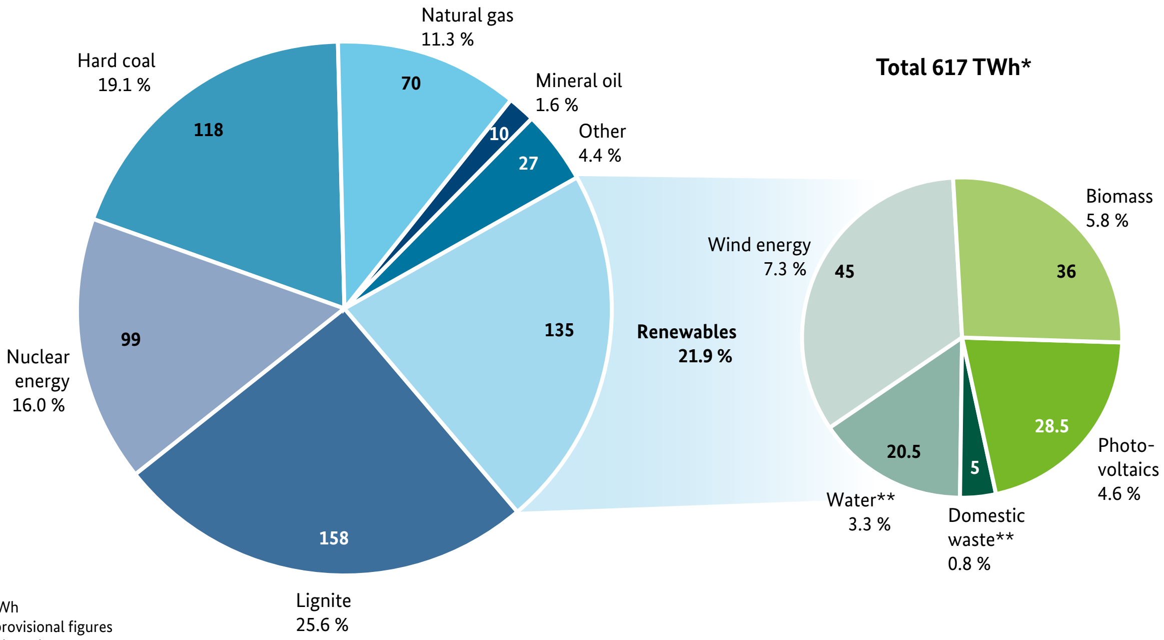
94. In the Federal Government's view, progress made to date on developing the European Research Area (ERA) has been largely positive. Germany is actively involved in the implementation of all initiatives. These include the identification of ten themes as the focus of joint programme planning initiatives, the compilation of several strategic research agendas and the rollout of initial joint funding activities, all of which are designed to address today's major social challenges. The Federal Government will continue to provide active support for future development of the ERA, based on the progress made so far. However, due consideration must be given to varying best practices in different countries.

3. Reduce greenhouse gas emissions and promote renewable energy and energy efficiency

95. With the aim of achieving a secure, affordable and environmentally sustainable energy supply, Germany has already set itself targets for reduction of greenhouse gases, use of renewables and energy efficiency that are far more ambitious than the core objectives set by the EU (cf. Box 1).

96. Germany is well on the way to attaining its challenging climate targets. A glance at the growth in economic output for the same period shows that effective climate protection can go hand-in-hand with sound economic development. The Federal Government will continue to take decisive action to attain its climate targets for 2020 and beyond. Back in 2007/2008, the EU committed itself to the *20-20-20* initiative: according to the decisions made by the European Council, by 2020 greenhouse gas emissions are to be cut by 20 or 30 percent; the share of energy consumption covered by renewables is to be increased to 20 percent; and finally, energy efficiency is to be increased by 20 percent in relation to the forecast development. The Federal Government

Figure 5: Gross electricity generation in Germany 2012



in TWh
* provisional figures
** biogenic

Source: Working Group on Energy Balances (AGEB), valid as at February 2013

Germany has made impressive progress in expanding the use of renewables to generate power. From 20 percent in 2011, the proportion of electricity generated from renewables rose to around 22 percent in 2012, and to around 23 percent of gross electricity consumption (provisional estimates). Growth in use of renewables as encouraged by the Electricity Feed Act and the Renewable Energy Sources Act (as of 2000) has occurred far more quickly than expected.

would accept an increase in the EU climate target to 30 percent on the basis of the national 40 percent target on condition that no further emission cuts would be required from Germany and that all EU member states would make a fair contribution.

97. Achieving an increase in energy efficiency is a key competitive factor. It will play a crucial role in ensuring an affordable energy supply for businesses and private consumers and also largely determine security of supply. High energy efficiency can also have a significant impact on reducing greenhouse gas emissions. For these reasons, the Federal Government has attached top priority to creating appropriate incentives for individuals and businesses to save energy (cf. Item 62).

98. Achieving growth and prosperity requires a secure supply and efficient management of metal, mineral and biotic commodities. In 2012, the Federal Government therefore improved its policies to encourage recycling and resource efficiency. It adopted the German Resource Efficiency Programme (ProgRess) in February 2012, as scheduled in its Raw Materials Strategy of 2010. In June 2012, new Closed Substance Cycle and Waste Management Act entered into force in June 2012. This law focuses on preventing waste and promoting recycling. Another government programme, the *Commercially strategic raw materials for high-tech industry in Germany*, is providing targeted support to research and development of environmentally sound and resource-saving technologies over the next years. The aim of this programme is to secure the German economy's supply of raw materials in the long term.

4. Improve education levels

99. Substantial and successful efforts have been invested by the Federal Government and the *Länder* in developing the education system (cf. Box 1). In 2011, the proportion of 30 to 34 year olds with a tertiary or equivalent educational qualification already well exceeded the national target.

100. Education concerns us all: businesses, since they rely on well educated skilled workers and therefore invest in initial and further training of their workforce; the state, which focuses on improving educational programmes and access for all citizens, and finally, the public, who benefit from greater opportunities through education. With the *Skills Development Initiative for Germany*, the Federal Government and the *Länder*

Box 2: Skills Development Initiative

The measures implemented by the joint Federal-*Länder* Skills Development Initiative are already yielding results:

- → In March 2012, 93.4 percent of all children aged between three and five were attending a kindergarten or pre-school. From 2008 to 2012, the proportion of under-threes availing of childcare services increased from 17.8 percent to 27.6 percent.
- → In 2011, 54.3 percent of schools (that is, administrative units) offered all-day childcare. Only four years previously, in 2007, it was a mere 38.9 percent.
- → Between 2006 and 2011, the percentage of school leavers without a lower secondary school leaving certificate (Hauptschulabschluss) dropped from 8 percent to 6.2 percent.
- → In 2012, there were roughly 492,700 first-year students in Germany. This is the second-highest figure for first-year students ever recorded (after 2011) in Germany.
- → As a proportion of the population in the same age group, the percentage of university graduates more than doubled from 14 percent in 1995 to 31 percent in 2011.
- → The number of first-year students taking an engineering degree course in 2011 was 24 percent higher than the previous year.
- → The number of women who have successfully completed a degree course in the field of science, technology, engineering or mathematics increased from 17,800 in 2001 to 42,900 in 2011, thereby more than doubling in ten years.
- → The proportion of foreign students in the education system increased from 31.4 percent in 2009 to 33.5 percent in 2010.
- → At 8.2 percent in 2012, Germany had the lowest rate of youth unemployment in the EU (22.9 percent on average).
- → The outlook for young people on the training market remains good. Over 551,000 new training contracts were concluded by the end of September 2012. Fewer young people are taking part in schemes and courses that are only designed to prepare the individual for vocational training (only 294,000 in 2011 compared to 418,000 in 2005). Instead, these young people start training directly after obtaining their general-education school leaving certificate.
- → The continuing education grant supports the further training activities of low-paid workers. By February 2013, over 215,000 grant vouchers had been issued, roughly 80 percent of which are used to fund further training measures.

adopted a comprehensive programme as early as 2008 that strengthens education and training in Germany by implementing specific measures in key action areas of the overall education system (see Box 2).

101. The Federal Government and the *Länder* are particularly focused on expanding childcare services in order to give greater educational opportunities to all children. Expanded childcare services also help parents to combine their work and family commitments (cf. Item 54) while increasing participation in the labour market.

102. The Federal Government and the *Länder* are supporting initial and further training with a raft of measures (see Item 47). For example, the National Pact to Promote Training and Young Skilled Workers offers educational opportunities to a large number of people. The Federal Government and the *Länder* have also implemented a comprehensive range of measures to help ease students' transition from school into professional life. The *Abschluss und Anschluss- Bildungsketten bis zu Ausbildungsabschluss* educational initiative aims to support this transition by conducting systematic aptitude testing as of the seventh class at general schools and also by deploying career start coaches. In addition, with regard to regulations governing support for the advanced training of older workers in small and medium-sized businesses (SMEs), the Federal Government has lifted time limitations, increased the scope of funding and also provided additional options for SMEs to participate in advanced training measures. The Federal Government is supporting extensive structural improvements within the educational landscape at municipal level and thus contributing to higher efficiency in educational services.

103. In response to the increased demand for places in higher education, the Federal Government and the *Länder* have intensified their efforts to expand the study programmes available. The Federal Government has increased its financial commitment to the second programme phase of the Higher Education Pact 2020 – until 2015 – to some 4.8 billion euros. With this investment, the Federal Government and the *Länder* are together creating the framework to accept around 327,000 additional first-year students at German institutes of higher education by 2015. As part of the Quality of Teaching Pact, the Federal Government is providing roughly 2 billion euros in additional funding through to 2020 to support initiatives launched by 186 institutes of higher education to improve study conditions. The government is also making 250 million euros for the competition *Advancement through Education: Open Universities*. This competition is designed to support the development and integration of study programmes for advanced training at higher education institutions. The *Deutschlandstipendium* grant programme, which is co-financed by the Federal Government and the private sector, represents another pillar of the educational grant system. This programme is available alongside the well-established *BAföG* funding, *student loans* and scholarships offered by organisations promoting young talent.

5. Promote social inclusion, in particular by reducing poverty

104. Long-term unemployment is one of the key risk factors in experiencing poverty and social exclusion. For many years, entrenched long-term unemployment was a feature of the German labour market: unemployment figures rose significantly during each downturn and then stagnated at a higher level during each subsequent upturn. This pattern has been broken, chiefly thanks to the introduction of resolute reforms and greater labour market flexibility (cf. Item 76 ff.). Long-term unemployment has contracted significantly in Germany in line with the extraordinary growth in employment (cf. Item 44). In 2011, the annual average figure for long-term unemployed people aged between 15 and 64 years old was 1.19 million, compared to 1.62 million in 2008[14] (cf. NSR 2012 Chapter 3.1, cf. Box 1).

105. However, further reducing intractable long-term employment and improving opportunities for the long-term unemployed to participate in working life remains a challenge. Germany is following a comprehensive strategy to tackle long-term unemployment: reducing long-term unemployment is a governing

14 Data based on the ILO international definition.

objective that is anchored in law and a priority action area for labour market policy. Thanks to the reform of labour market policy instruments, benefits designed to integrate and mobilise the unemployed – the long-term unemployed in particular - have improved, in terms of basic income support for jobseekers and promotion of employment.

Tackling long-term unemployment

106. The Federal Government has made resolute efforts to improve the functioning of the labour market in recent years. These efforts have benefitted disadvantaged groups on the labour market in particular. While the number of labour market policy instruments has been reduced, the scope for action has been retained or even expanded. Greater decision-making powers for the local job placement agents allow these instruments to be tailored more precisely to the individual requirements of the unemployed.

107. Efforts are underway to continue the successful measures so far implemented in the area of basic income support for jobseekers (German Social Code II), which are supporting the sustainable integration of long-term unemployed people in employment. The same applies to the area of unemployment insurance (German Social Code III). Benefits for active promotion of employment are primarily aimed at preventing long-term unemployment, in particular by supporting targeted advanced vocational training. The Initiative for Assisting Structural Change (IFlaS) is to be continued. This initiative allows unemployed workers to be retrained for jobs that are in demand on the labour market, thereby making a significant contribution towards preventing long-term unemployment.

108. Employers are entitled to receive a grant towards wage costs in order to support the integration of employees. The purpose of these Integration Grants is to offer an incentive to employers and create equal opportunities in the job application process: the funding enables certain (unemployed) applicants to be considered for a vacancy, even if they do not fully meet all job requirements but have a good chance of integration with additional support. Low-skilled workers and the long-term unemployed stand to benefit in particular from these supports.

109. Furthermore, the Federal Government already took action in 2011 to refine the rules governing exempt earnings for recipients of long-term unemployment last year. These measures aim to encourage benefit recipients to take up jobs that require the full payment of social security contributions. The impact on the labour market of the current exemptions has been monitored. However, the Federal Government has not yet completed its review of the results. Only when this is complete will it be possible to determine if and when further measures are required.

110. Some of the legal instruments available for mobilisation, vocational integration and skills development include integration grants to support social inclusion, back-to-work bonuses, measures for integrating the self-employed, subsidised community work, employment grants and programmes for increasing existing benefits and developing new instruments. Instruments to promote employment are favoured, in particular, in relation to basic income support: target agreements have been implemented in conjunction with the job centres with the aim of preventing long-term dependency on state benefits. The parties to these target agreements set annual ambitious goals. To help unemployed people with complex support requirements (those affected or threatened by long-term unemployment), the Federal Employment Agency is to intensify efforts promoting integration and placement in the area of unemployment insurance (SGB III).

111. In addition to these regulatory instruments, new and innovative measures for integrating the long-term unemployed are being developed at all levels of government in Germany. Many of the approaches under investigation include measures aimed at specific target groups, such as lone parents, young people and older people, people with a migration background or people with health problems. At Federal level, programmes like the following are aligned with this goal: *Perspektive 50plus*, the ESF-funded competition for ideas *Gute Arbeit für Alleinerziehende* aimed at lone parents, and the *ESF pilot scheme for community employment (Bürgerarbeit).*

112. The contribution rate for unemployment insurance has been reduced from 6.5 percent of gross pay in 2006 to the current rate of 3 percent, to reduce the load on contributors and also maintain gross wage costs at a moderate level.

Risk of poverty

113. There are two key determining and correlated factors underlying a risk of material poverty among families in Germany: family structure and participation in the workforce. Lone parents, for example, represent a relatively high proportion of low-income households, which are associated either with unemployment or with very limited gainful employment.

114. The Federal Government, the Federal Employment Agency and most *Länder* have identifed and highlighted lone parents as a target group that is particularly at risk of material poverty. Furthermore, the Federal Ministry of Labour and Social Affairs is aiding the integration efforts of the Federal Employment Agency, the *Länder* and municipal partners by promoting 102 networks to provide effective assistance for lone parents (*networks Netzwerken wirksamer Hilfen für Alleinerziehende*) nationwide.

The agencies promoting employment and providing basic income support to jobseekers are legally obliged to support women in particular. Additional support options have been made available through the Act to Improve the Chances of Integration in the Labour Market. The Federal Government is continuing to implement a range of actions to help people balance their work and family commitments, with a particular emphasis on expanding childcare facilities (cf. Items 54 ff. and 80 f.).

115. In addition to the quantitative goal set out as part of the *Europe 2020* strategy, the Federal Government is also working towards several qualitative goals to reduce the risk of poverty. These goals include improving the participation of disadvantaged children and young people in social and cultural activities, promoting the integration of people with a migration background, fostering social inclusion of people with disabilities (cf. Item 47 ff.), developing a demographically sustainable and viable health and long-term care policy, and preventing poverty among the elderly.

116. The above measures and others planned and implemented by the Federal Government and the *Länder* to foster social inclusion and tackle poverty are described in the National Social Report (NSR) 2012 and the accompanying strategic report for 2013.

IV. The Euro Plus Pact

117. The Euro Plus Pact requires the heads of state and government to make their own annual commitments to specific targets and measures ('action programmes'). These action programmes should be designed to boost competitiveness, increase employment, improve the long-term viability of the public finances and reinforce financial stability. Choosing specific targets and measures within these core areas is each country's own responsibility.

118. Drawing on initial experiences of the Euro Plus Pact, the participating states decided that as of 2012, the action programmes would focus on a small but significant number of projects that could be clearly defined and completed within a reasonable timeframe.

1. Implementation of the German Action Programme 2012 for the Euro Plus Pact

119. On 21 March 2012, the Federal Government approved the German Action Programme 2012 (cf. NRP 2012, Box 2). The programme encompasses seven obligations that address all strategic goals defined by the Euro Plus Pact and that have an appreciable macroeconomic impact. All planned measures were in line with the Cabinet decision about fiscal benchmark figures in relation to the 2014 federal budget and the financial plan for 2012 to 2016. The Action Programme 2012 was implemented as follows:

"1. By 2012 Germany will already have achieved the medium-term budgetary objective set out by the Stability and Growth Pact: a reduction of 0.5 percent of GDP in its structural net borrowing). The Federal Government will also exceed the reduction targets mapped out by the debt brake for the Federal budget once again in 2013."

120. As already outlined in Section II.1, (cf. Item (19) ff.), this voluntary commitment was fully met. More details are provided in the German Stability Programme 2013.

"2. Income tax rates will be adjusted in two stages on 1 January 2013 and 1 January 2014, reducing the higher taxes caused by fiscal drag. The extra tax revenue forecast for the coming years by the working party on Tax Revenue Forecasting in November 2011 gives the government the financial leeway for a schedule adjustment worth a total of 6 billion euros a year."

121. The Act to Reduce Fiscal Drag has entered into force, introducing additional income tax relief measures. Based on the Federal Government's Ninth Report on the Subsistence Minimum, the personal basic tax-free allowance is to be brought in line with the increased subsistence minimum. This will take place in two stages: the allowance for 2013 will be raised to 8,130 euros and for 2014 to 8,354 euros. Meanwhile the entry-level tax rate will remain unchanged at 14 percent. The original plans to sustainably reduce fiscal drag were blocked by the Bundesrat majority. However, the Federal Government will regularly assess the effects of fiscal drag in relation to income tax rates in its report on progressive tax rates every two years.

"3. As of the beginning of 2013, legislation to strengthen financial oversight in Germany should bring about improvements in macroprudential monitoring in particular. One of the concrete measures will be the establishment of a financial stability committee, for example. The German Central Bank is being granted additional data collection rights to monitor macroprudential risks."

122. The Federal Government has met this commitment. With legislation to strengthen financial oversight (*Gesetz zur Stärkung der deutschen Finanzaufsicht*), the Federal Government has improved macroprudential monitoring, which focuses on stability of the financial system as a whole. A financial stability committee is to be established for this purpose. The job of this committee will be to give advance warning of potential threats to financial stability and to issue appropriate recommen-

dations. As a result of this legislation, the structure of the Administrative Council (*Verwaltungsrat*) of the Federal Financial Supervisory Authority (BaFin) has also changed, thus reinforcing the independence of the authority. In addition, consumer concerns will receive greater attention in financial supervision. The ability of consumers and consumer associations to submit complaints to the Federal Financial Supervisory Authority has been put on a legal footing, and a consumer advisory board is being set up at the Federal Financial Supervisory Authority.

"4. To ensure the stability of financial markets even in the event of a systemic crisis, the Special Fund for the Stabilisation of Financial Markets (SoFFin) is to be revived for a limited period until the end of 2012 with the enactment of the second Financial Market Stabilisation Act. Allowing access to the SoFFin for new applications pre-empts a potential threat to the financial system, particularly if private sector solutions for strengthening the capital base of institutions are not successful. To that end, the authorities responsible for financial oversight will be given greater scope for action."

123. As outlined in Section II.2, this voluntary commitment has been met in full. Indeed, with the Third Financial Market Stabilisation Act, the Federal Government is going a step further. It is extending access to the Special Fund for the Stabilisation of Financial Markets (SoFFin) for new applications until the end of 2014 and has established a link between the SoFFin and the restructuring fund: the banks will cover possible losses arising from future stabilisation measures through the bank levies they are required to pay. This means of offsetting losses will reduce the burden on taxpayers in the event of bank restructuring.

"5. The Federal Government intends to strengthen the financing of venture capital in Germany by mid-2013. In particular, the foundations for improved investment funding for Business Angels have already been laid this year. Changes to individual tax-law framework conditions are under review and discussed with the European Commission, where necessary."

124. The Federal Government is enabling easier access to venture capital for young, innovative companies. It is offering a venture capital investment grant *(Investitionszuschuss Wagniskapital)*, to be launched as of Spring 2013, which will encourage private investors (business angels in particular) to provide direct-investment capital for these companies. The grant will amount to 20 percent of the investment (minimum two thousand euros, maximum 50 thousand euros) made by the investor in a beneficiary company. One of the prerequisites for the grant is that the investment must be retained for at least three years. A total of 150 million euros has been earmarked for this purpose for a four-year period as of 2013.

125. The *High-Tech Gründerfonds* also offers initial funding to high-potential technology-based start-ups. In addition to the Federal Government and the KfW banking group, a total of 19 companies had signed up for this programme by the end of the second round of applications at the end of 2012.

"6. Based on the current macroeconomic projection for 2012, the Federal Government believes that it will be possible to further reduce the contribution rate to the statutory pension fund at the beginning of 2013."

126. Effective from 1 January 2013, the contribution rate in the general pension insurance programme was reduced once again from the previous rate of 19.6 percent to 18.9 percent, and from 26.0 percent to 25.1 percent in the miners' pension insurance programme. This measure not only relieves the contribution burden on employees and businesses by 3.2 billion euros respectively in 2013, but also the Federal Government, *Länder* and municipalities.

7. This year, the Federal Government will make it significantly easier and less bureaucratic for foreign workers to migrate from third countries. For example, the salary threshold above which highly skilled foreign workers are permitted to settle in Germany without delay has been lowered considerably. In addition, the Assessment and Recognition of Foreign Professional Qualifications Act comes into force on 1 April 2012."

127. To attract skilled workers to the country, the Federal Government realigned its immigration policy last year with the Act to Implement the EU Directive on the Conditions of Entry and Residence of Third-Country Nationals for the Purposes of Highly Qualified Employment (cf. Item 83). Since April 2012, the *Act to Improve the Assessment and Recognition of Professional Qualifications Acquired Abroad* is also in force. This law expedites and simplifies the process for assessing and recognising foreign vocational credentials (cf. Item 83).

2. German Action Programme 2013 for the Euro Plus Pact

128. On 20 March 2013, the Federal Government adopted the Action Programme 2013 under the Euro Plus Pact (see Box 3).

129. The Action Programme 2013 includes six specific voluntary commitments. These measures will be adopted or implemented with effect from 2013. Some still have to pass through the relevant parliamentary procedures in consultation with the *Länder*. The measures envisaged by the Action Programme will help achieve the objectives of the *Europe 2020* Strategy and accommodate the coordination of economic policies in the European Union.

Box 3: German Action Programme 2013 for the Euro Plus Pact

Competitiveness

1. The Federal Government intends to amend the Renewable Energy Sources Act (EEG) in the immediate short term to reduce the costs of expanding the use of renewables for consumers. A separate fundamental reform of the EEG is planned by the Federal Government in order to enhance market and system integration of renewables and also to more closely coordinate the expansion of renewables with grid expansion and necessary investment in power plants.

2. The Federal Government intends to strengthen competition on the energy and gas wholesale and fuel markets by setting up market transparency authorities within the Federal Network Agency and the Federal Cartel Office. These authorities should find it easier to identify unauthorised behaviour on the markets, such as breaches of anti-trust legislation. In the fuel sector, motorists will also be able to compare current petrol station prices.

Employment

3. The German economy needs skilled workers with academic and professional qualifications from other countries. With this in mind, the Federal Government plans to allow skilled workers who have vocational training that has been acquired abroad and is equivalent to German vocational training, to take up employment in Germany if there is a need for their skills.

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Long-term viability of the public finances

4. The Federal Government is pushing ahead with its policy of pro-growth budget consolidation. It intends to draft a federal budget for 2014 with no structural deficit.

5. To reinforce the operation of the debt rule and thus bolster fiscal discipline, the Federal Government will ensure that the book balance that accrues when the transitional rule expires at the end of 2015 cannot be offset with future deficits. The Federal Government is seeking to enshrine this approach in law in 2013. In the last two years, a positive balance has been recorded because the public debt has fallen below the deficit limit defined for the transitional period of the debt rule.

Financial stability

6. The Federal Government is committed to improving the stability of financial markets. There is to be a particular emphasis, first, on simplifying the resolution or restructuring of credit institutions and financial groups; second, on separating more risk-prone areas from the deposit business; third, on introducing clear rules defining the accountability of managers of banking and insurance institutions, to be applied if these managers fail to fulfil their duties and thus endanger the existence of their institutions or the viability of insurance policies.

All these measures are in line with the decision on 13 March 2013 about fiscal benchmark figures made by the Cabinet regarding the 2014 federal budget and the financial plan for 2013 to 2017.

V. Use of EU structural funds

130. Funds available to Germany in 2013 from the ERDF European Structural Fund (European Regional Development Fund) and ESF (European Social Fund) amount to approximately 3.725 billion euros (1/7 of the total sum of 26.4 billion euros for the 2007 – 2013 programming period). The ERDF accounts for 2.344 billion euros of the total sum, while the ESF represents 1.381 billion euros.

131. These funds are to be invested primarily in the promotion of growth and employment potential, in line with the objectives defined under the Compact for Growth and Jobs. Apart from two federal programmes (ERDF transport and ESF), the funds will be administered by the *Länder*. These funds make an important contribution to stimulating innovation and investment activity and consequently promoting sustainable growth and domestic demand in Germany and Europe.

In this context, the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) also play an important role in rural development and promoting the *Europe 2020* strategy targets. This should result in better internal coordination within a joint strategic framework comprising the structural funds, the EAFRD and the future European Maritime and Fisheries Fund (EMFF), as of the 2014 – 2020 programming period.

132. Structural assistance in Germany for the current programming period (2007 – 2013) prioritises the following issues:

- Promoting innovation, research and development and education (approx. 31 percent of EAFRD funds)
- Strengthening the competitiveness of the economy (approx. 23 percent of the ERDF funds)
- Developing and expanding the infrastructure for sustainable growth (approx. 34 percent of ERDF funds)
- Promoting supra-regionally significant transport investments (approx. 9 percent of ERDF funds)
- Increasing the competitiveness and adaptability of companies and employees (approx. 28 percent of ESF funds)
- Enhancing the value of human capital (approx. 34 percent of ESF funds)
- Improving labour market opportunities and integrating disadvantaged sections of the population (approx. 36 percent of ESF funds)

The environment, promotion of equal opportunities and sustainable urban development are supported as cross-cutting objectives.

133. The Operational Programmes of the Federal Government and the *Länder* in Germany already prioritise the funding of knowledge and education, innovation and research, the development of small and medium-sized companies, a modern industrial and employment policy, the promotion of a resource-saving, more environmentally sound and competitive economy and improving Germany's infrastructure to increase the country's attractiveness as a business location. (See details in NRP 2012 Item 146 ff.).

134. In the forthcoming programming period from 2014 to 2020, the structural funds are to play a more important role than previously in achieving the goals of the *Europe 2020* Growth and Jobs strategy. They are to be applied in line with the targets defined within the framework of the European Semester (cf. Box 4).

135. The member states, the European Commission and the European Parliament are currently negotiating the content and financial framework of the future EU structural policy. Key requirements for Germany in these negotiations are as follows:

- All member states and regions are to continue to receive support in the future.
- Transitional regulations (safety net) applied to the regions leaving the highest levels of subsidies from the structural funds (convergence objective) must be fair and appropriate. These regions cover former East Germany, including the phasing-out regions.
- Flexible alignment of support strategies in line with regional requirements is required.
- Management of the structural funds should be significantly simplified and red tape reduced.

- There is to be a sharper funding focus on maintaining and developing competitiveness.

- Stricter conditions should apply for member states that have issues with competitiveness or that fail to implement adequate measures to tackle excessive deficits. Funding beyond these terms is only acceptable under a narrow set of conditions.

Box 4: Priority areas for the future Operational Programmes as part of ERDF, ESF and EAFRD funding

ERDF

- Promoting research, technological development and innovation
- Enhancing the competitiveness of SMEs
- Reducing CO_2 emissions in all industry sectors

In more developed regions, at least 80 percent of the ERDF funds are to be allocated towards these three objectives, while the figure for Transition regions is 60 percent. At least 20 percent of ERDF funds are to be earmarked for the last objective alone, in the case of both types of regions. The remaining funds are distributed in other areas such as climate change, the environment or urban development, depending on requirements (responsibility of the *Länder*).

ESF

- Increasing employment and supporting employee mobility
- Promoting social inclusion and tackling poverty
- Investment in education, skills development and lifelong learning

At least 20 percent of the ESF funds available are to be allocated to the objective “Promoting social inclusion and tackling poverty”. Of the ESF funds allocated to each Operational Programme, the member states direct 80 percent towards more developed regions and 70 percent towards Transition regions respectively, on up to four priority investment areas.

EAFRD

- Competitiveness of agriculture;
- Sustainable management of natural resources, and climate action;
- Balanced territorial development of rural areas

The allocation of financial resources from the EAFRD will continue to focus on the second objective, as in the past.

VI. Drafting the NRP 2013: process and stakeholders

136. The NRP was approved by the Federal Cabinet on 20 March 2013. Immediately following its adoption by the Federal Government, the NRP was presented to the German Bundestag and Bundesrat.

137. The NRP was prepared by the Federal Government with the cooperation of the *Länder*. Selected measures implemented by the *Länder* are presented in this document. The *Länder* Conferences of Specialised Ministers and Joint Science Conference (GWK) have submitted their statements on the NRP. Their input has been incorporated in the document and has also been published on the website of the Federal Ministry of Economics and Technology.

138. Many trade and social organisations, trade unions, employers' groups and other social groups have also contributed to the creation of this document. These include the Confederation of German Employers' Associations, the Confederation of German Trade Unions, the Association of German Chambers of Industry and Commerce, the German Confederation of Skilled Crafts, the Federation of German Local Authority Associations, the Federal Association of Non-Statutory Welfare, the National Anti-Poverty Conference and the German Association for Public and Private Welfare. In addition, the German Civil Service Federation (DBB), German Federation of Trade Unions (DGB) and Joint Committee for German Industry and Commerce (GA) were given an opportunity in early January to discuss the NRP with the Federal Government.

139. The Federal Government will submit the NRP 2013 and Stability Programme 2013 to the European Commission in mid-April.

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