

SPRING 2017 REFORM BAROMETER – GERMANY

European Semester - Overall assessment of 2016 cycle

	To what extent do you agree with these statements:		Detailed comments
1.	The National Reform Programme submitted by your Government (February/November 2016) is appropriate.	To some extent	The German NRP fails to properly address the main problem of persistent low productivity growth. It lacks ambition with respect to private and public investment, R&D, education and training. The NRP was right in addressing the obstacles regarding the labour market integration of refugees. However, the federal government could have been more active in sufficiently removing barriers to the employment of refugees. The overall goal to reduce bureaucracy should have been pursued more strongly. Furthermore, there is a continuous need to implement incentives for later retirement.
2.	The Commission's country specific recommendations for your country are appropriate.	To a large extent	As in last year's CSRs, investment in infrastructure, education, research and innovation is still a key priority to strengthen medium and long term growth potential. Inefficiencies in the system of corporate taxation should be removed. Furthermore, the Commission is right to address the crucial need for incentives to increase labour market participation: both with regard to later retirement and second earners.
3.	The Commission assessment of reform implementation the year before is appropriate.	Yes, absolutely	The Commission is right in assessing the progress of reform implementation based on the former year's CSRs as quite limited. Thus, the addressed issues, such as public investment and later retirement, must remain on the agenda of the federal government. Furthermore, there is no progress in the area of taxes.

	To what extent do you agree with these statements:		Detailed comments
4.	The Commission assessment of excessive imbalances (in-depth review) is appropriate.	To a large extent	As in the last year, the Commission identifies the persisting current account surplus as imbalance driven by low investment. The external position of about 50% of GDP is a significant risk in times of elevated global uncertainty. However, the strong position of German companies on the global market is not detrimental to the economies of Germany's European neighbours as they are participating in the supply chain and the highest trade surpluses are with non-European countries. Higher domestic investment is nevertheless necessary to balance the foreign trade surplus.

Assessment of Country Specific recommendations 2016 in detail

		Q1: The recommendation is	Q2: implementation effort is:	Detailed comments
CSR 1	Achieve a sustained upward trend in public investment, especially in infrastructure, education, research and innovation, while respecting the medium-term objective. Improve the design of federal fiscal relations with a view to increasing public investment, especially at municipal level.	Extremely important	Mixed	Increases of investment have to have a certain extent been driven by expenditures related to migration. Efforts to improve the investment environment in general are visible, but not sufficient. The fiscal space is left unused and the system of federal fiscal relations improves only slowly.

		Q1: The recommendation is	Q2: implementation effort is:	Detailed comments
CSR 2a	Reduce inefficiencies in the tax system, in particular by reviewing corporate taxation and the local trade tax, modernise the tax administration and review the regulatory framework for venture capital.	Important	Unsatisfactory	For inbound and outbound cross border investment, the local trade tax is a huge obstacle since it requires special treatment in double taxation agreements and taxes paid in one country cannot be imputed in another. Therefore, an integration of the local trade tax in the corporate income tax would be a huge improvement of the German tax system.
CSR 2b	Step up measures to stimulate competition in the services sector, in particular in business services and regulated professions.	Important	Unsatisfactory	Regulations for several liberal professions have been removed. However, a large number of services is still shielded from competition, implying high mark-ups.
CSR 3a	Increase incentives for later retirement and reduce disincentives to work for second earners.	Extremely important	Unsatisfactory	Against the background of rising life expectancy and a greater number of pensioners in Germany, it is of outmost importance to improve the financial sustainability of state pension schemes. Especially legal provisions within the statutory pension insurance scheme, which enable persons to retire without pension deductions from the age of 63, after 45 years of insurance contribution, go in the opposite direction. Instead more incentives for later retirement are needed. Furthermore, the second and third pillar system of pensions (occupational pensions, capital funded pension provision, "Riester pension") should also be strengthened urgently. In the field of occupational pensions, progress needs to be made especially in better tax disposition regarding pension book reserves. As a result of low interest rates, accounting burdens of companies which provide occupational pensions will increase significantly in the next few years. Capital funded pension provisions also need adjustments, e.g. regarding state-subsidised amounts as well as tax-deductible special expenditures.

		Q1: The recommendation is	Q2: implementation effort is:	Detailed comments
CSR 3b	Reduce the high tax wedge for low wage earners and facilitate the transition from mini-jobs to standard employment.	Important	Unsatisfactory	Generally, mini-jobs give reasonable access to regular forms of employment. But there are tax incentives in Germany that favour mini jobs over other forms of employment, especially for married couples. This hampers the transition from mini jobs to other forms of employment. In areas, where child-care-infrastructure and all-day schools are scarce, for some parents it is impossible to increase their working hours and therefore they work on mini job-level.

Reform Progress in your Member State in 2016

How would you assess reform progress in 2016, for the following broad areas:

Taxation and Public Finances	Unsatisfactory
Business environment (regulation/access to markets)	Mixed
Labour market	Unsatisfactory
Innovation and skills	Mixed
Access to finance and Financial stability	Satisfactory

Reform priorities for 2017

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
Priority 1	R&D and Innovation	Create tax incentives for R&D.	no
Priority 2	Labour supply measures for specific group (older workers, women...)	Make labour laws more flexible regarding working hours in order to adequately to digitalisation and individual demands.	no
Priority 3	Making work-pay: interplay of tax and benefit system	Reduce the high social security contributions wedge (not more than 40% of gross income).	no
Priority 4	Public investment	Foster public infrastructure, in particular in transportation, energy and digital networks.	no
Priority 5	ICT	Promote a swift digitization of firms, in particular of the Mittelstand.	no
Priority 6	Pensions and health care reforms	Restructure health sector: More competition and focus on cost-efficiency among hospitals and health providers. Calculate health insurance contributions independent of income but based on individual factors.	no