

**SPRING 2018 REFORM BAROMETER – GERMANY**

**European Semester - Overall assessment of 2017 cycle**

|    | <b>To what extent do you agree with these statements:</b>                               |                   | <b>Detailed comments</b>  |
|----|---|-------------------|---|
| 1. | The National Reform Programme submitted by your Government (April 2017) is appropriate. | To some extent    | The German NRP fails to properly address the main problem of a persistently low productivity growth. The initiatives to support private and public investment do not show the necessary ambition. There has been too little attention on R&D and education. Deregulation in the service sector, higher investments in digital infrastructure and easier access for financing are required to support innovation, competitiveness and productivity growth. The overall goal to reduce bureaucracy should have been pursued more strongly. The NRP also lacks measures to sustainably restrict social security contribution to 40 %. Foreseen restrictions to temporary employment however would affect labour market entry of low-skilled workers negatively. The foreseen guaranteed right to return from temporary part-time to full-time work is the opposite of what is needed for modernising working time regulations. |
| 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. Investment rates remain too low. Inefficiencies in the taxation system should be removed and services deregulated. Incentives for higher labour market participation need to be improved.   |
| 3. | The Commission assessment of reform implementation the year before is appropriate.      | To a large extent | The Commission is right in assessing the progress of reform implementation based on the former year's CSRs as limited. There has been progress in public investment and the regulatory framework of venture capital. Other issues like service market deregulation, later retirement, disincentives for labour market participation of second earners and particularly the area of taxes remain rather problematic.   |

|    | To what extent do you agree with these statements:                                  |                | Detailed comments  |
|----|---|----------------|--|
| 4. | The Commission assessment of excessive imbalances (in-depth review) is appropriate. | To some extent | As in the last year, the Commission identifies the current account surplus which relates to an accumulated excess of national savings to investment but also a highly competitive manufacturing sector. The corresponding high external position of about 50 % of GDP is a significant risk which underlines the need for continued rebalancing towards domestic sources. 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 highest trade surpluses are with non-European countries. Nevertheless, higher domestic absorption and investment is necessary to balance the foreign trade surplus. More ambition is needed in policies boosting productivity growth to have more leeway to strengthen domestic demand. The impact of recent policy measures in this regard has been limited. |

### Assessment of Country Specific recommendations 2017 in detail

|        |  | Q1: The recommendation is: | Q2: implementation effort is: | Detailed comments   |
|--------|--|----------------------------|-------------------------------|---|
| CSR 1a | While respecting the medium-term objective, use fiscal and structural policies to support potential growth and domestic demand as well as to achieve a sustained upward trend in investment. Accelerate public investment at all levels of government, especially in education, research and innovation, and address capacity and planning constraints for infrastructure investments. | Extremely important        | Mixed                         | Public investment as a proportion of GDP has remained largely constant and is below the euro area average. A public investment backlog persists in particular at municipal level. Moreover, extending consulting services on infrastructure investment planning to include municipalities should improve the planning and implementation of infrastructure investment at municipal level. Overall public and private education and research expenditure has been rather stable relative to GDP in recent years, but it remains below the EU average. The federal government has taken a number of measures to support venture capital investment. |

|        |  | Q1: The recommendation is: | Q2: implementation on effort is: | Detailed comments   |
|--------|--|----------------------------|----------------------------------|---|
| CSR 1b | Further improve the efficiency and investment-friendliness of the tax system.                    | Important                  | Unsatisfactory                   | Tax administration costs are high and several corporate taxation provisions may be hampering private investment. Corporate capital costs in Germany are still among the highest in the EU-28. Other distorting features are the inclusion of non-profit elements in the tax base of the local trade tax, limitations on loss carry-forwards, and tax-induced distortions with respect to the choice of legal form.  |
| CSR 1c | Stimulate competition in business services and regulated professions.                            | Important                  | Unsatisfactory                   | High regulatory barriers remain in the business services sector and regulated professions. In addition, the business churn rate for several professions is significantly lower than the EU average, which seems to indicate relatively low dynamism and competition in many professional services.  |
| CSR 2a | Reduce disincentives to work for second earners. Reduce the high tax wedge for low-wage earners. | Extremely important        | Unsatisfactory                   | As in the previous year, no legal adjustments have been implemented in order to reduce disincentives to work for second earners (e. g. wage tax classification). Referring to the high tax wedge (not only for low wage earners) there have also been no structural tax reforms except for minor adjustments which are compulsory in terms of constitutional law (general tax allowance) to correct the effects of progressive taxation and inflation.  |
| CSR 2b | and facilitate transitions to standard employment.   | Helpful but not a priority | Mixed                            | Generally, flexible forms of employment lower entry barriers to the labour market and supplement standard forms of employment. New forms of work and the digitization increase the need for flexible forms of employment. Mini-jobs, for example, are a reasonable instrument for students or pensioners. However, they reduce incentives to increase working hours for other groups, especially secondary wage earners. Additionally, lacks in childcare-infrastructure and all-day schools often hamper an increase in working hours for families and thus the transition in standard employment. |

|        |  | Q1: The recommendation is: | Q2: implementation on effort is: | Detailed comments  |
|--------|--|----------------------------|----------------------------------|--|
| CSR 2c | Create conditions to promote higher real wage growth, respecting the role of the social partners | Irrelevant                 | Mixed                            | Real wage growth should be closely linked to productivity growth. Over the past six years, real wage growth exceeded productivity growth by 0.7 percentage points. In the same period, the unit labour cost position towards the eurozone decreased by 9 %. Hence, focus should be on increasing productivity growth, especially by improving conditions for private investment. |

### Reform Progress in your Member State in 2017

How would you assess reform progress in 2017, for the following broad areas:

|  |                |
|--|----------------|
| <b>Taxation and Public Finances</b>                        | Unsatisfactory |
| <b>Business environment (regulation/access to markets)</b> | Unsatisfactory |
| <b>Labour market</b>                                       | Unsatisfactory |
| <b>Innovation and skills</b>                               | Unsatisfactory |
| <b>Access to finance and Financial stability</b>           | Satisfactory   |

## Reform priorities for 2018

|                   | I. Policy Area   | II. Concrete Recommendations  | III. Are the proposed recommendations already in the agenda of your Government? |
|-------------------|--|---|---|
| <b>Priority 1</b> | R&D and Innovation   | Create tax incentives for R&D   | no  |
| <b>Priority 2</b> | Labour supply measures for specific groups (older workers, women...) | Make labour laws more flexible regarding working hours in order to adequately adapt to digitization and individual demands. | no  |
| <b>Priority 3</b> | Public investment  | Increase investment in particular in digital, transportation and energy infrastructure                                      | yes, to some extent   |
| <b>Priority 4</b> | Making work-pay : interplay of tax and benefit system                | Reduce the high social security contributions wedge (not more than 40% of gross income).                                    | yes   |
| <b>Priority 5</b> | Tax reforms  | Incorporate local trade tax into income tax   | no  |