

SPRING 2019 REFORM BAROMETER – GERMANY

European Semester - Overall assessment of 2018 cycle

	To what extent do you agree with these statements:		Detailed comments
1.	The National Reform Programme submitted by your Government (March 2018) is appropriate.	To some extent	The German NRP acknowledges the fundamental challenges the German economy is facing due to demographic change and digitalisation but contains only limited and few long-term measures to address them. Besides some minor adaptations, the NRP lacks measures for a sustainable restriction of social security contributions to 40%. Instead, the foreseen stabilization of pension levels will increase contributions even more. Contrary to its own objective of increasing labour market participation, the NRP includes restrictions to temporary employment. These will affect labour market integration of low-skilled workers negatively. The guaranteed right to return from temporary part-time work 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. The framework for private investment needs to be improved, especially removing inefficiencies in the taxation system is a key priority. Incentives for a higher labour market participation and longer work lives 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 some progress in public investment, but disincentives especially regarding later retirement and labour market participation remain. No progress has been achieved in improving the investment friendliness of the taxation system.

	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. 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. Strong wage growth and expansionary policies (recent pension package) are strengthening private consumption. Hence, contributing to an increasing domestic absorption. However, further investment is necessary to balance the foreign trade surplus. More ambition is needed in policies boosting productivity growth in order to strengthen long-term growth and securing domestic demand. The impact of recent policy measures in this regard has been limited.

Assessment of Country Specific recommendations 2018 in detail

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 1a	While respecting the medium-term objective, use fiscal and structural policies to achieve a sustained upward trend in public and private investment, and in particular on education, research and innovation at all levels of government, notably at regional and municipal levels.	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 still persists in particular at municipal level. A new law was adopted in November in order to speed up planning and approval procedures for infrastructure projects.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 1b	Step up efforts to ensure the availability of very high-capacity broadband infrastructure nationwide.	Extremely important	Unsatisfactory	Coalition agreement moves towards right direction (gigabit networks until 2025), but clarification and quick implementation is crucial. Several hurdles hinder the swift roll out of gigabit-networks. Therefore, the government must: Implement a comprehensive broadband strategy; Enhance the coordination amongst ministries; Minimize administrative hurdles with respect to the rollout of fixed and mobile networks (i.e. application procedures for rights of use of ways, etc.); eGovernment, which is still not highly developed in Germany, would speed up processes; Accelerate the roll out of gigabit networks in simplifying authorization procedures of different kinds of installation techniques (i.e. micro-trenching, etc.); Develop an intelligent public funding strategy. In areas, where private rollout is not possible, a targeted public funding program is needed – especially for grey areas (strategy is not yet released); Connect households and companies with gigabit networks. Especially gigabit voucher could help to increase take-up rates in industrial and commercial areas; Make sure to provide 4G in urban and rural areas; use 5G coverage where economically and technically feasible with the current frequencies available.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 1c	Improve the efficiency and investment-friendliness of the tax system.	Extremely important	Unsatisfactory	Tax administration costs are still high and corporate capital costs in Germany are among the highest in the EU-28. Contrary to other countries, reform plans for a comprehensive corporate tax reform are still vague risking Germany's position in international business location competition. A complete elimination of the solidarity tax is overdue and necessary to reduce the tax burden for companies and workers. However, the government only foresees the elimination for 90 % of tax payers.
CSR 1d	Strengthen competition in business services and regulated professions.	Important	Unsatisfactory	High regulatory barriers remain in the business services sector and regulated professions. The level of restrictions is higher than the EU average in particular for architects, engineers, lawyers and accountants/tax advisers. In addition, the business churn rate for these professions is significantly lower than the EU average, which seems to indicate relatively low dynamism and competition in professional services.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 2a	Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners. Take measures to promote longer working lives.	Extremely important	Unsatisfactory	In light of increasing skill shortages, it is crucial to reduce disincentives to work more hours. Referring to the high tax wedge (not only for low wage earners) a reduction of 0.5 pp in unemployment insurance contributions was counteracted by a similar increase in the contribution to long-term care insurance. All in all, there is still no long-term plan to limit social security contributions to less than 40%. Instead, the recent pension package will lead to higher contributions being paid. With the restriction of fixed-term contracts and the possibility to retire at 63 without deductions labour market participation is still rather hampered than incentivized. There is also still much room for improvement when it comes to the availability of child care.
CSR 2b	Create conditions to promote higher wage growth, while respecting the role of the social partners.	Irrelevant		Wage growth should not be decoupled from productivity and be decided upon by social partners, not governments. Furthermore, it needs to be borne in mind that excessive wage growth might harm the competitiveness of German business. Labour costs in Germany are 30 % higher than on average in the EU. Unit labour costs continue to increase above EU average, whereas productivity growth remains very low. Hence, focus should be on increasing productivity growth, especially by improving conditions for private investment.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 2c	Improve educational outcomes and skills levels of disadvantaged groups.	Important	Mixed	German government recognized the need to improve digital skills and proposed a digital pact, aiming at promoting digitization in schools with 5 billion Euro. However, progress is still unclear as open questions regarding financing remain between the federal state and the Laender. A recent proposal for a minimum remuneration in vocational education would be a step backwards and a clear restriction to the principle of collective bargaining.

Reform Progress in your Member State in 2018

How would you assess reform progress in 2018, for the following broad areas:

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

Reform priorities for 2019

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
Priority 1	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
Priority 2	Tax reforms	Improve effectiveness and investment friendliness of tax system.	no
Priority 3	Public investment	Increase investment in particular in digital, transportation and energy infrastructure.	yes
Priority 4	Making work-pay: interplay of tax and benefit system	Reduce the high social security contributions wedge (not more than 40% of gross income).	yes
Priority 5	R&D and Innovation	Create tax incentives for R&D	yes