COMPREHENSIVE GROWTH STRATEGY: GERMANY

NOVEMBER 10, 2014

A. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Economic Objective

Germany is committed to the G20 Framework for Strong, Sustainable and Balanced Growth and the collective objectives of the G20. Apart from the stabilization and deepening of the economic and monetary union in Europe and the ongoing financial market reforms, the priorities for the Federal Government are: maintaining a sound fiscal position, improving framework conditions for investment and innovation especially for small and medium-sized firms, strengthening targeted investment and innovation policies, fostering competition, improving labour market policies, and continuing with successful energy reforms. Moreover, the Federal Government is committed to reach balanced and ambitious free-trade agreements between the EU and leading third countries and a successful conclusion of the Doha round. The German economy has been and strives to remain an anchor of stability in the Euro Area by pursuing these policies.

All measures will contribute to stronger, sustainable and balanced growth in Germany and the G20. Fostering innovation and competition will support productivity growth and will thus make overall growth stronger. Maintaining a sound fiscal position and energy reforms will make growth sustainable. Robust domestic demand on the back of high employment and stronger investment as well as expanded trade will support growth in Europe and worldwide. Moreover, increasing foreign investment by German firms will foster Europe’s economic recovery and contribute to growth in G20 countries. High technology exports will contribute to increase productivity in importing countries and help technological transfer, including to developing countries.

Specific estimates besides these qualitative considerations and how much they contribute to the 2 percent ambition of the G20 are not available from national sources.

Key Commitments

1. Investing in public infrastructure. A total of €5 billion of additional money provided for investment in public transport infrastructure over the next four years, primarily for maintenance and modernization purposes. In November, the Minister of Finance has announced the objective to further boost public investment by an additional €10 billion in 2016-2018; details will be agreed in the budget negotiations.

2. Investing in research and education and expanding the “High Tech Strategy”. Additional €3 billion for research and development will be made available by the Federal Government. The federal states (Länder) and municipalities will be supported in financing child care, schools and universities by €6 billion over the next four years. The Government will implement the new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy for Germany.

3. Boosting female labour force participation by further promoting the return to work for women after a family-related break of employment.

4. Tackling long-term unemployment. The Federal Government is planning a European Social Fund (ESF) – co-financed program to create employment prospects for long-term unemployed on benefits (Unemployment Benefit II) for a total funding of €885 million.

5. Transforming the energy sector, in particular to increase the share of renewable energies and to enhance energy efficiency. Germany has set various targets to implement its “Energiewende” (energy transition). These include increasing the share of renewable energies (RE) of electricity production to 40-45 % in 2025 and 80 % in 2050 and reducing primary energy consumption by 50 % compared to 2008, as well as ambitious targets for the mitigation of greenhouse gas emissions.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

The German economy is growing moderately faster in 2014 than last year. But the unfavourable development of the “hard” industrial indicators and the decline of the business climate are currently indicating a temporary pause in growth in the middle of the year. Some economic indicators were influenced by special effects such as the time of the summer holidays. Furthermore, losses of confidence as a result of geopolitical crises and the weakness of global economy had damping effects. National and international institutions’ growth forecasts for Germany currently range from 1.3 % to 1.7 % in 2014 and 1.2 % to 2.0 % in 2015. The Federal Government’s projection from October 2014 is 1.2 % for 2014 and 1.3 % for 2015.

	Key Indicators					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	0.1	1.2	1.3	1.3	1.3	1.3
Nominal GDP (% yoy)	2.2	3.2	3.2	3.1	3.1	3.1
Output Gap (% of GDP)*	-0.8	-0.8	-0.8	-0.6	-0.4	0.2
Inflation (%, yoy)	1.5	1.1	1.6			
Fiscal Balance (% of GDP)**	0.1	0	0	1/2	1/2	1/2
Unemployment (%, ILO)	5.1	4.8	4.7	4.6	4.5	4.4
Savings (% of GDP)***	25.9	26.1	25.9			
Investment (% of GDP)***	19.0	19.1	19.4	19.6	19.7	19.9
Current Account Balance (% of GDP)	6.8	7.0	6.6			

The figures are the Federal Government’s autumn projection as of October 14, 2014.
*A positive (negative) gap indicates an economy above (below) its potential.
**A positive (negative) balance indicates a general government fiscal surplus (deficit).
***Gross Capital Formation.

Key Drivers

German GDP growth will be driven by domestic demand over the forecast horizon (1.4 % in 2014; 1.7 % in 2015). The good labour-market situation, with employment reaching new record highs (42.8 million in 2015) and unemployment further decreasing (ILO rate 4.8 % in 2014; 4.7 % in 2015), will result in increasing gross wages and salaries (3.8 % in 2014; 3.7 % in 2015), disposable income (2.2 % in 2014; 2.9 % in 2015) and real private households consumption (1.0 % in 2014; 1.4 % in 2015). Moreover, after a lengthy period of weakness, positive impulses are also coming from investment. The expansion of investment in machinery and equipment (3.0 % in 2014 and 4.1 % in 2015) and increasing exports (3.4 % in 2014; 4.1 % in 2015) will – due to the high import content – also stimulate the level of German imports (4.0 % in 2014; 5.5 % in 2015). Public investment is projected to increase by 5-9 % in 2014 according to economic research institutes. The current account surplus will decrease to 6.6 % in 2015.

Assessment of Obstacles and Challenges to Growth

According to the St. Petersburg Accountability Assessment, “Germany has fulfilled many of its structural reform commitments. Of particular note was progress towards facilitating immigration of skilled workers, enhancing labour market competition, and boosting R&D and education spending. Further progress is still needed to increase domestic demand, notably by boosting private investment and service sector competition, and further increasing female labour force participation.”

Risks to the outlook for the German economy include a more moderate growth in emerging markets, geopolitical uncertainties and a resurgence of excessive volatility in financial markets of the Eurozone periphery.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Sound public finances are an essential prerequisite for confidence of market participants, private investment and economic growth. Hence, the Federal Government aims at a balanced federal budget in structural terms in 2014. Next year, the federal budget will also be balanced in nominal terms. The general government budget will be balanced in nominal terms with a small structural surplus in 2014 and 2015. Germany’s debt ratio (76.9 % of GDP in 2013) will decrease to below 65 % by 2018 and to below 60 % within ten years. Thus, Germany will comply with all international fiscal commitments – both at the EU and G20 level (“Toronto commitments”). It will do so with a growth-friendly fiscal policy: preserve a balanced budget while stepping up infrastructure investment.

For other than fiscal commitments, particularly regarding monetary and exchange rate policy frameworks and the reduction of EU imbalances, please refer to the EU-Template.

New Structural Policy Responses

Investment and Infrastructure

The Federal Government will provide a total of €5 billion of additional funding for urgently needed investment in public transport infrastructure over the next four years, primarily for maintenance and modernization purposes. The Government also decided to extend the truck-toll to all roads under national responsibility and to introduce a road fee for cars. The revenue will be used for investments in motorways. In addition, measures will be taken to improve efficiency and to set the right priorities for infrastructure investment.

The Federal Government pursues a targeted investment and innovation policy. This mainly involves the modernization of the infrastructure base in Germany. Investment in infrastructure will both strengthen the dynamism of the domestic economy and create an additional growth impulse in Germany and Europe alongside Germany's strength in exports. Also, efficient infrastructure improves the framework for private investment.

For identifying further action to improve the investment climate and to mobilize more private capital for infrastructure investment, the Federal Minister for Economic Affairs and Energy has set up the high-level working group "Strengthening investment in Germany". The group started its work at the end of August, 2014 and includes experts from the public and private sector as well as academia. A final report is expected in spring 2015.

Total capital expenditure of local authorities, which are responsible for the maintenance and expansion of local infrastructure, is increasing markedly (+9 % in 2013, similar expectations for 2014), also promoted by measures of the Federation. In the years 2014-2017 the Federal Government intends a further support of municipalities by a total of €3 billion.

To improve the framework in which investment and innovation can take place, the energy reforms, oriented equally to the objectives of climate and environmental compatibility, security of supply and economic viability will be continued. Electricity prices should remain affordable for commercial, industrial and private consumers.

The Federal Government has adopted the "Digital Agenda" in August. This government strategy will strengthen growth and employment in the digital sector, in particular in telecommunication infrastructure. Key objectives are to make better use of the innovation potential, to support the development of extensive high speed networks, to enhance the security of IT systems and providers, and to promote media literacy of all generations. Regulation that promotes investment and fosters innovation should allow for optimal incentives for private telecommunication providers to expand the broadband network. From 2015 onwards, revenues from allocations of broadcast frequencies will be used to give additional incentives to invest in those regions where broadband deployment is not profitable yet. The aim of the new R&D technology programme "Smart Service World" with governmental funding of €50 million from 2015-2019 is to mobilize the same funding from the private sector to enhance the topic Industry 4.0, which promotes the computerization of the manufacturing industry, with intelligent “Smart Services”.

Regarding private investment, Germany’s general conditions for investment are very favourable. Institutions, infrastructure, the macroeconomic environment and educational standards are high. Financing for investment is abundant but barriers impeding the financing of small and medium-sized enterprises must be reduced. One important aspect will be to ensure traditional financing for small and medium-sized enterprises via savings banks, co-operative banks, private banks, business promotion banks and guarantee banks. The introduction of the new rules on equity and liquidity requirements (Basel III) must be taken into account in this regard. Access to traditional bank financing is often difficult for innovative start-ups and young companies. For this reason, the Federal Government will increase the international competitiveness of the German venture capital market by more efficient legal and tax rules. This will help attract more resources for investment in innovative firms in Germany.

With regard to infrastructure investment, there is scope for increasing the use of private capital for such projects, e.g. through Public Private Partnerships (PPP). PPP can play an important role in providing infrastructure in a cost effective way. Therefore, PPP will be further developed with the goal to make PPP more SME-friendly and to improve the method for calculating efficiency of projects.

The Federal Government aims to keep the R&D quota at 3% of GDP – well above EU average. It has adopted the new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy for Germany. The Strategy covers both technological and societal innovations with the aim to transform research results better and faster into practice.

The Federal Government will also invest more into education and research: The federal states (Länder) and municipalities will be supported in financing child care, schools and universities by €6 billion over the next four years. The Federal Government will continue to finance research facilities. Additional €3 billion for research and development will be made available by the Federal Government. Hence €9 billion of the €23 billion in additional spending on policy priorities over the next four years will be invested in education, science and research.

In November, the Minister of Finance has announced the objective to further boost public investment by an additional €10 billion in 2016-2018; details will be agreed in the budget negotiations.

For a detailed description of additional investment measures on the EU level, please refer to the EU-Template.

Employment

Germany has made substantial labour market progress. In particular, female labor force participation is in the upper third of G20 counties, long-term unemployment has fallen, the number of employees subject to social security contributions has risen and youth unemployment is low compared to other countries.

However, not all concerned have benefitted from the positive development of the German labour market. Full-time or nearly full-time labour force participation of women still has to be enhanced, the number of women in top positions has to increase and the gender pay gap between women and men needs to be reduced. Currently more than one million people have been unemployed for more than one year. Long-term unemployed only benefit below-average from the positive labour market developments although the absolute figure of long-term unemployed has decreased by one third over the last five years (about 490,000 people). The framework conditions for the employment of young people have to be further improved to ensure a constant high level of youth employment in future.

Against this background, the Federal Government´s main focus is on ”boosting female labour force participation“, ”tackling long-term unemployment“, ”promoting youth employment“ and “increasing flexibility for a longer working life”.

The contribution of women to the labour force can be improved through higher participation rates, enhancing working hours in part-time employment, better paid and higher quality jobs and a successful re-entry to the labour market after a family related break of several years. The OECD has estimated that full convergence of female labour force participation to the participation rate of men by 2030 would boost the annual GDP per capita growth rate across the OECD by 0.6 percentage points on average.

Since a good reconciliation of family and work life is crucial for a high and continuous labour force participation of women, the Federal Government envisages to further improve the availability of appropriate, affordable and high-quality daycare for children and to gradually expand all-day care in childcare facilities. While progress has been made, improving the quantity of childcare remains on the agenda, since demand for childcare for children aged 0-3 years still exceeds supply. Additional funds will be made available from the Federal Government to expand the childcare offer for this age group. Quality issues have been put forward by the present government and will be subject to debate between all relevant policy levels and stakeholders. Moreover, the Federal Government will further develop the law on part-time work and parental leave policies and will continue its programs and awareness raising activities together with the social partners in order to promote family-friendly working conditions.

Furthermore, the Federal Government envisages legal measures in order to, on the one hand, increase the representation of women in leadership positions in private companies and the public sector and on the other hand to eliminate unjustified pay inequities between women and men.

According to the World Bank, economic growth is often not enough to reabsorb the long-term unemployed in the labour market. Most effective policies need to combine measures to stimulate growth and to promote employability of the long-term unemployed. The Federal Government is planning a European Social Fund (ESF) co-financed program to improve the employment prospects for long-term unemployed persons, comprising the acquisition of jobs, coaching of employees after starting work and a temporary financial compensation for employers during the period in which the productivity of the former unemployed is reduced.

With respect to the demographic change, Germany has to ensure that all young people take advantage of their opportunities and start successfully into working life. The mentoring for the school to work transition will be expanded. It aims at guiding young persons with difficulties from their last year at school until they start a vocational training. To support young persons who are not in education, employment or training, a new federal program will be implemented to support young persons who are socially disadvantaged with suitable training or employment measures including social and educational support. Together with social partners and the Länder, the Federal Government will launch a new alliance for vocational and further training with the aim to strengthen the dual system of vocational education and training and further training. The Federal Government will press hard to ensure that the "Compact for Growth and Jobs" adopted by the European Council in June 2012 is properly implemented.

The German parliament has launched a high level working group for exploring ways to a more flexible retirement-regime. This includes incentives for a longer working life and improved flexibility in the transition from working life to retirement. The group was set up in June 2014 and is expected to present results by the end of this year.

For a detailed description of additional employment measures on the EU level, please refer to the EU-Template.

Competition

The Federal Government will consider further steps to improve the administrative and court procedures for antitrust violations and will aim to strengthen the enforcement of cartel law by authorities and private parties.

For a detailed description of additional competition measures on the EU level, please refer to the EU-Template.

Trade

Germany strongly supports the views expressed by the Presidency: Trade facilitation, efficient services sectors, rolling back trade restrictive measures, reducing barriers to trade and creating a favourable business environment are actions that all countries should pay particular attention to. This is true for Germany as well.

In institutional terms it should be noted that the trade policy of EU Member States is embedded in the Common Commercial Policy of the EU. With this in mind, a few comments to the trade actions referred to by the Presidency:

Trade Facilitation:

Germany strongly supports a rapid ratification and implementation of the Trade Facilitation Agreement (TFA). All G20 Members should adhere to the obligations accepted in Bali in December 2013 in this regard. The TFA would substantially speed up the removal of red tape in customs procedures on a global scale and enhance opportunities for participation in global value chains (GVCs), especially by SMEs and developing countries.

At the same time, Germany stands ready to continue offering help and support to smaller developing countries and especially to LDCs to overcome country-specific difficulties in the modernization of their customs procedures. In this regard, Germany also cooperates with International Organizations such as the World Customs Organization that considers the implementation of the TFA and resulting Customs Capacity activities as a key priority.

In terms of customs clearance, Germany applies simplified procedures for “authorized operators” in accordance with EU law and offers economic operators the possibility of using an automated clearance system (ATLAS) as well as the internet.

As pointed out by the Presidency, facilitating trade also includes the upgrading of transport infrastructure. Over the next four years, the Federal Government will provide a total of €5 billion in additional funding for further investment in public transport infrastructure, to be used primarily for maintenance purposes (see *Investment and Infrastructure*).

Reducing tariffs and quotas:

The negotiations in the WTO on NAMA, the initiative on environmental goods and the review of the Agreement on Information Technology are core elements for progress and a successful outcome in this regard. The level of ambition should reflect today´s weight of the major players in the world economy, including the increased responsibility of the emerging countries.

Environmental Goods:

Earlier this year, the representatives of Australia, Canada, China, Costa Rica, the European Union, Hong Kong, China, Japan, Korea, New Zealand, Norway, Singapore, Switzerland, Chinese Taipei, and the United States, committed to begin preparations for negotiations to liberalise trade in environmental goods, building on the APEC List of Environmental Goods. The global challenges we face, including environmental protection and climate change, require urgent action. The negotiations on the Environmental Goods Agreement (EGA) were launched in July 2014. Germany supports the aim to achieve global free trade in environmental goods.

Services:

Services and trade in services have gained importance during recent years due to new technologies and a higher integration of global value chains. According to the research of the OECD regarding trade in value added in global value chains, services account for almost 50 % of Germany’s total value added exports. This means that Germany relies significantly on services inputs.

In Germany the services sectors are comparably open and efficient. Over the last few years Germany has made further efforts to de-regulate the services sector, for example regarding the rules governing the liberal professions or the provision of long-distance coach services. Against this background, we are continuously examining the regulatory environment for services. However, in order to further enable and facilitate trade in goods and services, Germany welcomes the efforts being undertaken worldwide to foster more open and transparent services sectors.

Against this background Germany supports an ambitious approach towards trade negotiations in the services sector and we welcome the high dynamism of the plurilateral Trade in Services Agreement (TiSA). We believe that this Agreement is a good opportunity to boost the high potential of a very relevant sector. The negotiations could also have a positive impact on the services negotiations within the WTO. This is why Germany supports the approach to negotiate this plurilateral initiative with the aim to subsequently multilateralize the results.

Rolling back restrictive measures:

The G-20 should continue sending strong signals about the need to keep markets open and to resist protectionism. Germany explicitly supports the Presidency's argument that protectionist measures that have arisen should be rolled back.

The monitoring by the WTO and OECD of measures that restrict trade and investment should continue. Measures to further strengthen the "peer review" process in the WTO could be actively supported by the G-20 and its Member States.

Reducing barriers to trade – creating new trade opportunities:

Germany actively supports the Common Commercial Policy of the EU, which is aimed at reducing barriers to trade and creating new trade opportunities. Market liberalisation should preferably take place at multilateral level or – in the absence of multilateral solutions – by way of plurilateral or bilateral talks.

Two key ongoing FTA negotiations of the EU are TTIP and the FTA talks with Japan. The Federal Government is actively contributing to these negotiations, not least by informing and discussing with the business community, the press and NGOs about the challenges and opportunities of these trade talks.

The overall objective is to gain and secure public support for trade talks which may have their challenges but will create enormous opportunities.

Creating a favourable business environment to help SMEs grow:

Success on domestic and international markets is significantly determined by favourable business conditions at home and sufficient access to resources. Government programs provide a stimulus in the fields of financing, skills, innovation and market opportunities abroad:

- The promotional activities of the KfW SME Bank include granting long-term credits for capital expenditure and working capital with more favourable interest rates than for conventional bank loans.

- Federal Ministries cooperate closely with business associations and trade unions to recruit young talents for the dual vocational training system that breeds skilled professionals.

- The Central Innovation Program for SMEs (ZIM) promotes research, development and innovation and is open to all technologies and sectors.

- Foreign trade promotion instruments pave the way even for small businesses to become active in international markets.

- In addition, the German accelerator program provides young startups with hands-on mentoring at our locations in Silicon Valley, San Francisco and New York City to enter the US market.

These are just a few examples of measures that foster a continuous growth of SMEs in Germany and allow them to expand and to pursue activities abroad.

Other measures

Energy

Germany will base its energy supply predominantly on renewable sources and, in a step-by-step process up to the end of 2022, cease the generation of energy in German nuclear power stations entirely. Germany aims to become less dependent on international oil and gas imports, to attain its climate mitigation targets, and to create new growth sectors and new jobs by developing new technologies.

To tackle the clear rise in costs seen recently, a reform of the Renewable Energy Sources Act (EEG) has come into force in August. That includes focusing on the least expensive technologies of onshore wind power and photovoltaics; and to reduce excessive subsidies. Further to this, a binding deployment corridor for renewables will make it easier for all stakeholders to plan their next steps. The promotion of renewables will be made more market-oriented (direct marketing). In addition, the level of financial subsidies for renewables will be set via competition in the form of technology-specific auctions by 2017 at the latest. Besides the reform of the EEG, Germany has addressed further key projects for the transformation of its energy system. These include the synchronisation of the expansion of the grid with the expansion of generation (especially from renewable sources) and the further development of the electricity market design in order to ensure the security of power supply.

In addition to expanding renewable energy production, Germany will enhance energy efficiency as the second pillar of the energy transition. Therefore, Germany is rolling out a broad mix of instruments consisting of giving advice, pressing for action, and giving incentives for more private-sector investment in energy conservation and energy efficiency. This includes inter alia measures such as tried-and-trusted incentives for efficiency and renewables-based heat in the building sector, which will be improved and expanded. A

National Action Plan on Energy Efficiency is to be adopted by the end of 2014.

Development Cooperation

Germany will increase its engagement in development cooperation with the aim to foster widespread, inclusive, resource-efficient and low-carbon growth also in developing countries. The Federal Government will provide an additional amount of 2 billion euro over the period 2014-2017 in order to increase the official development aid (ODA) quota towards the international target of 0.7% GNP. Germany supports its cooperation countries to implement the principles of a social and ecological market economy and places a particular emphasis on promoting a transformation towards a low-carbon, resource-efficient and socially inclusive economy. This includes strengthening capacities and framework conditions for innovation and the development of appropriate technologies as well as increasing private investment into green technologies and infrastructure. Germany also supports the development of its cooperation countries' financial systems in order to leverage public and private investments. A further focus lies on improving framework conditions for the private sector and its ability to create jobs by supporting cooperation countries to develop labour market policies and vocational training opportunities that answer to the changing demands of an increasingly ecologically sustainable growth path. The support for transparent and efficient public finance systems and a comprehensive fight against corruption is equally crucial.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy

Changes to the previous projections for the debt-to-GDP ratio predominantly are based on an update of the database for the reporting year 2013 and the projection of these data up to the year 2018, under the new European System of National and Regional Accounts (ESA 2010). Besides updating the projection of the development of the budget deficits at central, state and local level there are also new assumptions concerning the continued reduction of the portfolios of the resolution institutions that were established to deal with the consequences of the financial crisis.

2. Medium-term fiscal strategies (required for advanced economies – only if updated):

a. Overall strategy for debt sustainability
no changes

b. Debt-to-GDP ratio objective
In the German Draft Budgetary Plan 2015, adopted by the cabinet in October 2014, the debt-to-GDP ratio is projected to decline to 74% in 2014 and will continue to decline to approximately 63 ½% in 2018.

c. Intermediate objectives
no changes

d. Expenditure and revenue reforms
no changes

e. Reforms to strengthen the fiscal framework
no changes

3. Medium-term projections, and change since last submission*:

		Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018
Gross Debt	79.0	76.9	74	70 ½	68	65 ½	63 ½
ppt change	-2.0	-1.5	-2	-2	-2	-2	-1 ½
Net Debt							
ppt change							
Fiscal balance**	0.1	0.1	0	0	½	½	½
ppt change	0	0	0	0	½	0	0
Primary Balance		2.2	2	2	2	2	2
ppt change							
CAPB		2.6	2 ½	2	2	2	2
ppt change		-0,2	0	0	0	0	0

* Last submission based on spring projection as of April, 2014.
** Negative value signifies a budgetary deficit; positive value signifies budgetary surplus

4. Economic Assumptions, and change since last submission*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions:

		Estimate	Projections				
	2012**	2013**	2014	2015	2016	2017	2018
Real GDP growth	0.4	0.1	1.2	1.3	1.3	1.3	1.3
ppt change	-0.3	-0.3	0.6	0.7	0.1	0.1	-0.1
Nominal GDP growth	1.9	2.2	3.2	3.2	3.1	3.1	3.1
ppt change	0.3	0.5	0.3	0.6	0	0	0
ST interest rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ppt change							
LT interest rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ppt change							

* Last submission based on spring projection as of April, 2014.
** Changes based on national accounts revision.

ANNEX 2: NEW POLICY COMMITMENTS

1. Investment and Infrastructure[1]

• The New policy action:	Additional investment in public infrastructure
Implementation path and expected date of implementation	Already in 2014, €500 million are earmarked for investment in federal highways. According to the key figures for the 2015 budget and the financial plan, the allocation over time is as follows: €1 billion in 2015, €1.4 billion in 2016 and €2.1 billion in 2017. Total capital expenditure of local authorities, which are responsible for the maintenance and expansion of local infrastructure, is increasing, also promoted by relieving measures of the Federation. In the years 2014-2017 the Federal Government intends a further relief of municipalities by a total of €3 billion.
What indicator(s) will be used to measure progress?	Expenditure for public transport infrastructure can be used as an output indicator.
Explanation of additionality (where relevant)	A total of €5 billion of additional money is to be provided for urgently needed investment in public transport infrastructure over the next four years, primarily for maintenance and modernization purposes. Public investment of the federal level will increase accordingly. The funds will be used for federal trunk roads, waterways and railways. High quality public infrastructure is a prerequisite for growth. Domestic economic dynamism and employment are likely to benefit from this measure. However direct and indirect effects are difficult to quantify.

[1] Tables will be updated as soon as details on the additional investment program announced in November are available.

• The New policy action:	Invest in research and education and implement the “High Tech Strategy”
Implementation path and expected date of implementation	The federal states (Länder) and municipalities will be supported in financing child care, schools and universities by €6 billion over the next four years. The Federal Government will continue to finance research facilities. Additional €3 billion for research and development will be made available by the Federal Government. The Federal Government implements the new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy for Germany.
What indicator(s) will be used to measure progress?	The following indicators are among others used to measure progress: gross domestic expenditure on R&D (“GERD”) and higher education spending on R&D (“HERD”) as percentages of GDP, public R&D spending, private R&D spending, R&D intensive employment. It is one major achievement that Germany was able to expand public R&D spending continuously. One major result was that it achieved the 3 percent target of the Lisbon Strategy in 2012. Public R&D spending of the German government increased by about 60 percent since 2005 to €14.5 billion in 2013. With €53.8 billion the private sector in 2012 invests more than ever in research and development. The overall R&D intensive employment reached the highest share ever, with a level of about 591,000 in 2012.
Explanation of additionality (where relevant)	Germany's economic growth is based on an internationally competitive industry with highly innovative products. Investment into research and education are fundamental parts of Germany’s growth strategy. Germany implements its new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy. The new Strategy covers both technological and societal innovations to direct research results better and faster into practice. The overall aim is to foster innovation and generate economic growth.

2. Employment

• The New policy action:	Boosting female labour force participation
Implementation path and expected date of implementation	Key elements are: Further promoting the return to work for women after a family-related break of employment. Introducing the entitlement to temporary part-time work with the right to return to former amount of working hours. Further development of the Parental Allowance Act and the Parental Leave Act by introducing the Parental Allowance Plus and the partnership bonus. The Parental Allowance Plus complements better than currently the income from a part-time job after the birth of a child, and thus enhances the incentive for mothers to return to work. Improving the quantity and quality of childcare, especially for children aged 0 to 3 years, and enhancing the quality of services for all children. Cooperating with social partners on the dissemination of innovative models of work organisation and flexible working time in local and nationwide networks. Facilitating the use of household related and family supporting services e.g. national services platform. Introducing a compulsory quota of 30 % for women in boards of directors of fully co-determined and stock-market listed enterprises and binding targets for boards of directors, managing boards and top management levels. Introducing a new equal pay legislation to ensure equal pay for equal work and work of equal value. Implementation during the course of the legislative period (by 2017).
What indicator(s) will be used to measure progress?	More and better employment for women Gender Pay Gap
Explanation of additionality (where relevant)	While progress has been made, improving the quantity of childcare remains on the agenda, since demand for childcare for children aged 0-3 years still exceeds supply. Additional funds will be made available from Federal Government to expand the childcare offer for this age group. Moreover, quality issues have been put forward by the present government and will be subject to debate between all relevant policy levels and stakeholders.

• The New policy action:	Tackling long-term unemployment
Implementation path and expected date of implementation	The Federal Government is planning a European Social Fund (ESF) – co-financed program to create employment prospects for long-term unemployed on benefits (Unemployment Benefit II). Activities will include: acquisition of jobs and consultancy of employers concerning the modalities of the programme, providing a contact person for employers in case of difficulties with the employee, individually tailored coaching of employees after starting work and a temporary financial compensation for employers during the period of reduced productivity of the former unemployed (total volume of funding €885 million). Implementation during the course of the legislative period (by 2017) will start after approval of the federal ESF operational programme.
What indicator(s) will be used to measure progress?	Reduction of long-term unemployment
Explanation of additionality (where relevant)	

• The New policy action:	Promoting youth employment
Implementation path and expected date of implementation	Key elements are: Even more emphasis will be placed on job guidance, vocational orientation and counselling for young persons. Young persons with difficulties manage more successfully the school to work transition when they are supported by preventive measures and guidance at the beginning of the career. Young persons will receive matching offers addressing their individual needs to avoid that they become "NEETs" (young people neither in employment, nor in education or training). Locally created models of cooperation between different organizations will be disseminated nationwide. Fields of actions are: transparency, exchange of information, harmonized procedures and the principle of a One-Stop-Shop where possible. The mentoring for the school to work transition shall be expanded as far as possible. Career entry mentors assist lower-attaining pupils at schools offering general education. The mentors provide individual, ongoing support from the penultimate school year through to the first half of the vocational training year to help pupils' transition from school to vocational training. Therefore the Federal Government is planning an ESF-co-financed programme. To support young people neither in employment nor in education or training („NEETs"), a new federal program „Strengthening Youth in Districts" will be implemented in the framework of the federal ESF operational programme. Young persons who are socially disadvantaged or with individual difficulties will be offered suitable training or employment measures including social and educational support. This programme opens funding opportunities to support young people with a migrant background. Together with the social partners and the Länder, the Federal Government will launch a new alliance for vocational training and further training. The successful completion of the school-to-work-transition is a main task for the Federal Government. To this end, the federal cabinet concluded the national implementation plan to implement the EU Youth Guarantee in Germany. The EU Youth Guarantee should ensure that all young persons under the age of 25 receive a good quality offer of employment, further education, an apprenticeship or a traineeship within four months after leaving school or becoming unemployed. Implementation during the course of the legislative period (by 2018) and partly after the start of the federal ESF operational programme.
What indicator(s) will be used to measure progress?	More young persons in education, vocational training, employment or training.
Explanation of additionality (where relevant)	

• The New policy action:	Increasing flexibility for a longer working life and improved flexibility in the transition from working life to retirement
Implementation path and expected date of implementation	The German Parliament has launched a high level working group for exploring ways to a more flexible retirement-regime. This includes incentives for a longer working life and improved flexibility in the transition from working life to retirement. The group was constituted in June 2014 and is expected to present results by the end of this year.
What indicator(s) will be used to measure progress?	Measurement of progress is not defined yet and will be a result of current discussion of the working group.
Explanation of additionality (where relevant)	

3. Competition

• The New policy action:	Increase competition environment (antitrust, cartel law etc.)
Implementation path and expected date of implementation	Evaluation of Eighth Amendment to the Act Against Restraints of Competition (in force since 30.06.2013). The Federal Government will consider further steps to improve the administrative and court procedures for antitrust violations and will aim to strengthen the enforcement of cartel law by authorities and private parties.
What indicator(s) will be used to measure progress?	Evaluation can only be based on decisions of the national cartel authority and (following) court decisions. As antitrust proceedings take several years regularly, the current available facts are not sufficient to evaluate.
Explanation of additionality (where relevant)	Improvement of competition law framework; less differences between European and German merger control; better enforcement of cartel law by consumer organisations.

4. Trade

Please refer to the EU/ECB-Template.

5. Other structural policies

• The New policy action:	"Energiewende": transforming the energy sector in particular to increase the share of renewable energies and to enhance enerby efficiency
Implementation path and expected date of implementation	Transforming the energy sector and increase the share of renewable energies will create new income flows and jobs. Germany has set various targets to implement its "Energiewende" (energy transition). These include increasing the share of renewable energies (RE) of electricity production to 40-45 % in 2025 and 80 % in 2050. In 2013 Germany reached 25.4 %.
What indicator(s) will be used to measure progress?	The effects of the "Energiewende" will be measured continuously. Therefore Germany has launched the "Energy of the future" monitoring process which closely monitors the implementation of the energy transition, with annual reports as well as a strategic progress report in December 2014. The overall monitoring e.g. measures the overall economic effects like investments through RE (2013: ca. €16 bn), gross saved fossil fuels imports (ca. €9 bn through RE) or jobs created through RE (ca. 370.000, gross). This monitoring process includes reporting on the National Action Plan on Energy Efficiency. In addition, there are evaluation reports for specific targets, which include a periodic evaluation of the Renewable Energy Source Act and the energy security report (every 2 years).
Explanation of additionality (where relevant)	Increased engagement in RE or energy efficiency offers opportunities for increased private sector activity both in Germany and internationally (e.g. technology export, knowledge transfer).

• The New policy action:	Increase engagement in development cooperation
Implementation path and expected date of implementation	Increased engagement in development cooperation is a continuous process that is expected to generate long-term, sustainable impact. The Federal Government will provide an additional amount of €2 billion over the period 2014-2017 in order to increase the official development aid (ODA) quota towards the international target of 0.7% GNP.
What indicator(s) will be used to measure progress?	Germany annually reports on its ODA to the OECD-DAC. These reports cover a variety of indicators, including in the area of sustainable economic development, which allow for a comparative assessment of the progress made in development cooperation.
Explanation of additionality (where relevant)	Increased engagement in development cooperation with the aim to promote inclusive and sustainable economic development in developing countries and emerging economies offers opportunities for increased private sector activity both in cooperation countries and in Germany. By supporting the economic development of cooperation countries, the German economy may benefit directly via increased exports and new business opportunities but also indirectly via improved stability of the global economy and the global financial system. Positive effects on employment are expected – not only in our cooperation countries but also indirectly in Germany through enhanced business opportunities for the German private sector.