2016
GROWTH STRATEGY
Germany

A. Economic Context and Objective

There are no changes to our economic objective since the Antalya Summit. Germany is committed to the G20 Framework for Strong, Sustainable and Balanced Growth and the collective objectives of the G20. 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 bringing forward policies to transform the energy system. Moreover, the Federal Government is committed to reach balanced and ambitious free-trade agreements between the EU and leading third countries. Germany has been and strives to remain an anchor of stability in the Euro Area by pursuing these policies.

With its updated growth strategy Germany will also contribute to the G20's work to support the 2030 Agenda for sustainable development and to the achievement of the SDGs, in particular SDG8.

The German economy was able to attain positive results in 2015 despite a difficult economic environment. Real GDP grew by 1.7 % in 2015 after 1.6 % in 2014. Forward looking indicators predict that economic growth will continue at about the same pace in 2016. The German government projections in spring forecast 1.7 % GDP growth for 2016 and 1.5 % in 2017 (for working-day adjusted figures: see Annex 3).

German GDP growth will be driven by domestic demand over the forecast horizon until 2020 (demand growth: 2.6 % in 2016; 1.9 % in 2017). The good labour market situation, with employment reaching new record highs (43.5 million in 2016) and low unemployment (ILO rate 4.1 % in 2016; 4.3 % in 2017), will result in increasing gross wages and salaries (4.0 % in 2016; 3.7 % in 2017), disposable income (2.9 % in 2016; 2.9 % in 2017) and real private households consumption (2.0 % in 2016; 1.5 % in 2017). With a gradual global recovery we expect a moderate increase in investment. The expansion of investment in machinery and equipment (2.6 % in 2016 and 2.7 % in 2017) and increasing exports (2.9 % in 2016; 3.7 % in 2017) will – due to the high import content – also stimulate the level of German imports (5.2 % in 2016; 5.0 % in 2017). The current account surplus will decrease to 8.2 % in 2016 and gradually continue to decrease afterwards. Public investment will expand about 4 ¾ % on average over the forecast horizon fostered by Federal Government measures to enhance investment. This increase is much stronger than for average expenditure.

Risks to the outlook for the German economy include uncertainties accompanying the Brexit vote, more moderate growth in emerging markets, a resurgence of excessive volatility in financial markets and geopolitical uncertainties. Moreover, demographic developments are a significant challenge for fiscal policy. Therefore building resilience and budget consolidation are among the main priorities of the Federal Government.

The massive inflow of refugees Germany has experienced recently shows the importance of retaining sufficient room for manoeuver in public budgets to deal with such challenges. All levels of government – federal, state and local – are undertaking significant steps to provide adequate help to the refugees. The Federal Government is providing substantial support to the federal states. In 2017 alone, the budget planning foresees approximately 19 billion € e. g. for expenses related to hosting and integrating large numbers of refugees as well as providing humanitarian aid and supporting in particular the Syrian neighbouring countries. Together with the additional spending by states and municipalities, these important amounts will boost domestic demand already in the short term. The medium to long-term effects of this increased immigration on potential growth depend in particular on the refugees' successful integration into the labour market. Therefore the federal government has taken a number of measures to facilitate their labour market integration.

B. Macroeconomic Policy Actions to Support Growth

Sound public finances are an essential prerequisite for confidence of market participants, private investment and economic growth. And they are an important contribution to enhancing the resilience of the economy against future crises. The Federal Government has realized a balanced federal budget in 2014 and again in 2015. The general government has realized a close to balanced budget since 2012, with a surplus of 0.6 % of GDP in 2015. Due to the increase in expenditure for refugees and asylum seekers, pension outlays and additional investment, the budget balance is to decline in 2016 and it will remain close-to-balance further on. The debt-to-GDP ratio has been declining since 2012. In 2015, the debt-to-GDP ratio was down to 71.2 % of GDP. For 2016 the ratio is set to fall below the 70 % threshold, one year earlier than planned. By 2020, the ratio is expected to fall below the maximum debt-to-GDP ratio of 60 % according to the European Stability and Growth Pact.

For non-fiscal commitments, particularly regarding monetary and exchange rate policy frameworks and the reduction of EU imbalances, please refer to the EU Growth Strategy.

C. Structural Reform Priorities

C1. Implementation of Past Growth Strategy Commitments

All policy commitments as described in the Brisbane and Antalya Growth Strategies are on track. The Federal Government considers the measures as effective and relevant. We expect to fully implement our commitments by 2018. There are a number of additional measures as well as adjustments to existing measures which are described below.

1. Invest in research and education and implement the "High-Tech Strategy"

Measures under this key commitment have been fully implemented and are either part of the federal budget or the budget planning. For implementation details, see Annex 1.

2. Boost female labour force participation

Creating equal opportunities for women and men and better incentives for women to work is a comprehensive task. In Germany, the female employment rate ranks in the upper third of the G20 countries. The female employment rate has risen continuously during the last two decades in Germany to reach 73.1 % in 2014 (aged 20-64 years, EU LFS).

However, female employment in Germany is characterized by a relatively high share of part-time. The share has remained largely unchanged in the last decade. In 2014 47 % of women worked part-time, while the share of part-time employment for men did not exceed 9 %. Nearly two out of three women in part-time employment work less than 20 hours per week on average. A lot of women in part-time employment would like to work more hours if they could better balance work and family life. Women are still under-represented in high tech professions and top management positions. At the beginning of 2016 the share of women in supervisory boards of listed companies that are subject to co-determination of shareholders and employees increased slightly to 23.7 %. Career interruptions for family reasons, the relatively low share of women in supervisory boards and sectoral and occupational choices result in women earning considerably less than men during their life. The unadjusted Gender Pay Gap in Germany was 21 % in 2015.

Most measures under this key commitment have been fully implemented and have already come into effect in 2015. A legal act to alleviate unjustified pay inequities between women and men is currently under preparation and is expected to come into effect in 2017.

Increased and continued financial support for public child care has been made available and investment programmes show first successes. The share of young children in early childhood education and care further increased from 2014 to 2015. A third investment programme initiated last year is currently being implemented. A process on quality of childcare was also initiated by the Federal Government and the federal states with first results to be presented in an interim report end of 2016. According to the operational budget planning process for 2017 and beyond, additional federal resources amounting to 376 million € in 2017 and 450 million € per year for 2018-2020 will be provided in order to increase the provision of childcare places and to enhance the quality of childcare through various measures, in particular with regard to language development. For more details, see Annex 1.

3. *Increase competition through the evaluation of the Eighth Amendment to the Act Against Restraints of Competition, improving the administrative and court procedures for antitrust violations*

Implementation of this key commitment is progressing. In July 2016, the German Federal Ministry for Economic Affairs and Energy published a proposal for the 9th Amendment to the Act against Restraints of Competition (ARC) as a result of the evaluation of the Eighth Amendment. This amendment will adjust the German competition law to the challenges of digitalisation of the economy and of businesses and product cycles becoming faster. Therefore Germany will update the rules concerning market dominance and merger control. The policy directive is likely to be adopted in 2016. For more details, see Annex 1.

4. *Tackling long-term unemployment*

The German labour market is in good shape with relatively low unemployment rates (among the lowest in the EU), which have decreased steadily in recent years (5.9 per cent in 2011 to 4.6 per cent in 2015, EU LFS). But long-term unemployed persons (who are out of work for more than one year) have difficulties benefiting from the overall positive labour market development to the same degree. Although the number of long-term unemployed has declined in the last years, the share of long-term unemployed relative to the number of all unemployed remains high at 44 %. Part of the challenge is that the group of long-term unemployed is very heterogeneous. The long-term unemployed face multiple issues related to age (25 % are 55 years or older), low qualifications (more than 50 % have no vocational qualification), health (most frequently psychological and behavioural disorders) and single-parenting (more than 10 % are single parents).

Most measures under this commitment have been implemented, and additional measures are underway. The German Federal Employment Agency has developed methodologies and concepts for an effective integration and placement in the labour market through an individual approach. The agencies provide profiling through an analysis of professional and soft skills, taking into account the individual private situation. Once established, an agreement of objectives between the unemployed and his/her integration assistant and a schedule to achieve these objectives is pursued. This may include, for example, further training.

Furthermore, the Federal Government has initiated a programme comprising the consultancy of employers and 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.

5. *Promoting youth employment*

In 2015, Germany had a youth unemployment rate of 7.2 % (Eurostat) which is the lowest unemployment rate for youth in the EU (15-24 years). The share of young people neither in employment nor in education and training (NEET) was 6.4 % in 2014 in Germany. Germany´s challenge is not to urgently reduce a high unemployment level among young people, but rather to assist disadvantaged young people with specific barriers, e.g. to complete a vocational training. For that reason there is a need to strengthen a preventive approach in the area of school-to-work transition and support young people to find a successful start in their vocational life. Although the situation for young persons on the German labour market is very good in international comparison, the unemployment rate of persons aged 25 years or younger should be reduced even further along with the share of young NEETs.

The Federal Government continues to successfully implement a range of programmes aimed at further reducing youth unemployment, as committed to in the Brisbane and Antalya growth strategies. As central part of the “Alliance for Initial and Further Training” to also help lower-achieving young people receive in-company training, in 2015 the Federal Government introduced "Assisted Training" as a temporary new support instrument with almost 5,000 places created nationwide in the 2015/16 training year and expanded the target group eligible for training assistance. For more details, see Annex 1.

6. *Increasing flexibility for a longer working life and improved flexibility in the transition from working life to retirement*

The coalition parties have submitted the final report of the working group "Flexible transitions into retirement" in November 2015. Therein they have agreed on various proposals for a more flexible and self-determined transition from work into retirement, which correlates better with individual life plans. A draft of the new Flexible Retirement Act has recently been presented by the coalition parties. The proposal is planned to be implemented in 2017.

7. "Energiewende"

The *Energiewende* (energy transition) is Germany's long-run strategy to base its energy supply system predominantly on renewable energy sources. The implementation of the *Energiewende* is well under way. The new Electricity Market Act has been passed by parliament. It will pave the way for an enhanced electricity market 2.0 in Germany.
Furthermore, parliament has passed a revision of the Renewable Energy Sources Act. It will bring a major change in the system for funding renewable electricity. From 2017 onwards, funding rates for renewable electricity will no longer be set by law, but will be determined via a market-based auction scheme. For more details, see Annex 1.

8. Development cooperation

Germany has started to further align its development cooperation with the 2030 Agenda for Sustainable Development with emphasis on the following five priority areas:
- Fight against hunger and poverty,
- Fight against climate change and protection of natural resources,
- Human rights and good governance, crisis prevention and fight against the root causes of irregular migration,
- Equitable globalization,
- New global partnership.

Along these lines Germany will further increase its engagement in development cooperation with the aim to foster sustained, inclusive and sustainable growth in developing countries. The Federal Government will provide an additional amount of 10.3 billion € over the period 2014-2019 in order to increase the official development aid (ODA) quota towards the international target of 0.7 % GNP. For more details, see Annex 1.

C2. New Structural Reform Measures

Digitalisation is key for growth and competitiveness in today's economies. The Federal Government seeks to actively shape the transition of its economy and society into the digital era. Promoting digitisation in order to increase Germany's role as an innovative and powerful economy is one of our key objectives for the years to come. The Federal Government has thus adopted a **"Digital Agenda"** covering a wide range of areas regarding digitisation.
Key objectives are to make better use of 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. One main lever for growth is the digitalisation of the manufacturing industry ("Industrie 4.0"). To make the digitalisation of manufacturing a success, the Federal Ministry for Economic Affairs and Energy and the Federal Ministry of Education and Research have re-launched the "Plattform Industrie 4.0" in April 2015. The platform unites all of the relevant stakeholders from businesses, associations, trade unions, academia and politics. For more detail, see Annex 2. Moreover the Ministry for Economic Affairs and Energy has launched

the Platform “Innovative Digitalisation of the Economy”. The Platform identifies needs for action as a priority in the field of digital economy and accelerates solutions by joint actions. For more detail, see Annex 2.

D. Investment

Both public and private investment is crucial for economic growth. The Federal Government has launched measures to lift public investment especially in infrastructure, energy efficiency, education and research. These include measures that will reduce the financial burden on regional and local governments in order to give them more financial leeway for local investment. Public investment focuses on growth-enhancing measures which improve the framework for private investment as well. Since private investment accounts for nearly 90 % of total investment in Germany, the regulatory framework for private investment is therefore key to boost aggregate investment.

Implementation of the Brisbane/Antalya key commitment *Additional public investment, especially in infrastructure* is fully on track: All measures are either included in the federal budget for 2014-16 or in the budget planning for 2017-18 (see Annex 1). These measures are also part of the German 2015 Investment Strategy. Other measures included in the Investment Strategy have proceeded well and are fully on track. For more details, see Annex 1 on Investment Strategy commitments.

1. Investment Ecosystem

Germany’s general regulation for private investment is highly favourable. Firms operate in an environment of sound institutions, favourable macroeconomic conditions, and dynamic and competitive firms.

The *Bürokratieentlastungsgesetz* (Bureaucracy Relief Act) and a reform of public procurement law (*Vergaberechtsmodernisierungsgesetz*) have come into force in January and April 2016, respectively. These reforms reduce red tape and deliver an expected relief of about 1.4 billion € per annum which should disproportionally benefit start-ups, growing firms and SMEs. The principle “one in, one out” ensures that any new bureaucratic burden on businesses has to be balanced by a decrease of the same amount elsewhere. Recently, the Federal Government has decided on a second Bureaucracy Relief Act as part of its renewed work programme. The law is scheduled for parliamentary consideration in the second half of 2016, with the main provisions coming into force in January 2017.

2. Infrastructure

Compared to the Antalya growth strategy, additional investments of about 3 billion € have been initiated by the Federal Government: 1.8 billion € on public transport infrastructure to be spent in 2018, 3 billion € additional investment in public roads in 2018-19 financed by additional revenues from the extended truck toll, and additional 2.7 billion € to be spent on broadband internet in 2015-19 (see updated table for commitment *Additional public investment, especially in infrastructure*, Annex 1).

The Federal Government plans to establish an infrastructure entity that manages the national highway system. This entity will be organized on the basis of private-sector principles to increase efficiency and will cover the whole life-cycle of projects, including planning, financing, construction and maintenance and operation. The entity will be financed mainly by user fees. Private investors can also be involved (on project level).

Furthermore, the ÖPP Deutschland AG will be transformed into a public advisory centre to support i. a. municipalities with local infrastructure projects, covering both PPP and conventional procurement. This ensures fast and efficient upgrading of infrastructure.

With regard to infrastructure investment, the Federal Government further analyses the potential of private capital for infrastructure projects, through innovative ways of financing public investment projects. The participation of private investors can play an important role in providing infrastructure in a cost-efficient way.

3. SMEs

The German Federal Government offers various funding instruments for founding and expanding innovative SMEs (e.g. High-Tech Start-Up Fund, ERP/EIF Fund of Funds, European Angels Fund, ERP/EIF Growth Facility, co-investment fund “coparion”).

Annex 1. Past commitment – Brisbane and Antalya commitments

Brisbane and Antalya Key Commitments for Monitoring Purposes

• The policy action:	Additional public investment, especially in public infrastructure through measures with a total of about € 40 billion of additional money		
Inclusion of the commitment in growth strategies	This measure was included in the Brisbane/Antalya growth strategies (key commitment).		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	- 5 billion € in public transport infrastructure in 2014-17, 1.8 billion in 2018, primarily for maintenance and modernization purposes; - approximately 4 billion € within the scope of a 28 billion € modernization program over five years (2015-2019) for the existing railway network; - 2.1 billion € additional investment in public roads in 2016-18 with additional truck toll revenues through the extension of the existing truck toll; - 24 billion € public investment, mainly in public infrastructure, in 2016-2018 (of which 4.35 billion € on transport infrastructure and broadband internet, 1.2 billion € on energy efficiency, 0.4 billion € on housing and construction, 14 billion € support for		Implemented. All measures have either been included in the federal budget for 2014-16 or in the budget planning for 2017-18.

	municipalities). - 2.53 billion € additional support of federal states for investing in modernization of regional railway services; - 1.6 billion € to be spent on broadband internet (2015-2019). In addition, 8 billion € German support for the European Commission's Investment Plan for Europe with loans by the German Promotional Bank KfW.		
Impact of Measure	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. However direct and indirect effects are difficult to quantify.		

• The policy action:	**Invest in research and education and implement the "High-Tech Strategy"**		
Inclusion of the commitment in growth strategies	This measure was included in the Brisbane/Antalya growth strategies (key commitment).		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	1 – The federal states and municipalities are supported in financing child care, schools and universities by 6 billion € in 2014-17. The Federal Government continues to finance research facilities. 2 – Additional 3 billion € for research and development are made available by the Federal Government: 0.2 billion € in 2015, 0.9 billion € in 2016 and 1.9 billion € in 2017. 3 –The Federal Government implements the new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy for Germany. The Implementation is supported by a central advisory body consisting of experts from the areas of science, industry and society. The advisory body started its work on 17 March 2015.		Implemented. 1 –From 2015 onwards the whole costs of the Student's Assistance Act is financed by the Federal Government. Therefore the federal states have an additionally 1.17 billion € per year to spend for child care, schools and universities. Under the Higher Education Pact the Federal Government provides over 2.1 billion € in 2016 and more than 2.44 billion € in 2017 to fund additional university students. The federal states contribute similar amounts. 2 –Part of the budget and the budget planning. 3 –The High-Tech Strategy was adopted by the Government in September 2014. The central advisory board (Hightech-Forum) accompanies the implementation.
Impact of Measure	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. 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. It 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.

• The policy action:	Boost female labour force participation		
Inclusion of the commitment in growth strategies	This measure was included in the Brisbane/Antalya growth strategies (key commitment).		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	1 – ESF-co-financed programme "Prospects of re-entering the labour market". 2 – Equal pay legislation. 3 –Gender quota legislation. 4. – Development of the Parental Allowance Act and the Parental Leave Act. 5 – Introducing the entitlement to temporary part-time work with the right to return to former amount of working hours. 6 – Further increase childcare places and improve quality of childcare: Common process on quality of childcare by the Federal Government and the federal states. Additional money to increase the provision of childcare places and to enhance the quality of childcare through various measures, in		Implemented except for element 2. All measures have either been included in the federal budget for 2014-16 or in the budget planning for 2017-18. 1 – Started in July 2015 nationwide in 23 regional projects and will last until December 2018. It has an extension option until December 2021. 2 – Legislative procedure was launched end of 2015 and is expected to come into effect in 2017. 3 – Came into force in May 2015. 4. – Came into effect for all children born from July 2015 by introducing the Parental Allowance Plus, a partnership bonus and more flexible parental leave regulations. 5 – Legislation on the better reconciliation of work, family life and caring for relatives (amendment of Home Care Leave Act) has, from January 2015, introduced

	particular with regard to language development.		the option of part-time work when caring for family members and entitlement to return to former amount of working hours. Further legislation regarding part-time work is envisaged. 6 – First results of common process on quality of childcare in an interim report end of 2016. Federal budget planning for 2017 and beyond provides an additional 376 million € in 2017 and 450 million € per year for 2018-2020 to improve childcare.
Impact of Measure	Policies securing transparency and fairness in pay can provide an incentive for women to take up employment, especially in areas where women are currently paid less for equal work. Policies regarding parental leave and caring for relatives aim at a better reconciliation of work and private life. An important element for boosting female labour market participation is the provision of childcare places that correspond to the demands of working mothers. Expanding childcare services supply for young children and enhancing the quality of childcare should facilitate the re-entry of mothers into the labour market and increase of full-time employment among working mothers.		

• **The policy action:**	**Increase competition through the evaluation of the Eighth Amendment to the Act Against Restraints of Competition, improving the administrative and court procedures for antitrust violations**		
Inclusion of the commitment in growth strategies	This measure was included in the Brisbane/Antalya growth strategies.		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	1. Proposal for the 9th Amendment to the Act against Restraints of Competition (ARC). 2. Adoption of the 9th Amendment.	1. July 2016 2. end of 2016	The German Federal Ministry for Economic Affairs and Energy published a proposal for the 9th amendment in July 2016. The policy directive is likely to be adopted by the end of 2016 and become effective in 2017.
Impact of Measure	The Amendment will strengthen fair competition and the enforcement of competition law by authorities and private parties across all sectors. Especially the rules concerning market dominance and merger control aim to facilitate and protect product and services innovations.		

Other Non-key Commitments

• The policy action:	**Tackling long-term unemployment**
Implementation path and expected date of implementation	The ESF programs to reduce long-term unemployment and the program “social participation” are part of a plan by the Federal Minister of Labour and Social Affairs to reduce long-term unemployment that was launched in March 2015. The concept called “Creating opportunities - safeguarding social participation” has five pillars: 1) Additional and extended networks for Job Centres and other stakeholders to assist with labour market activation, 2) ESF Federal Government programme for long-term unemployed labour market integration, 3) Social participation programme, 4) Linking health promotion and employment activation, 5) Simplifying legislation for a lasting reduction in long-term unemployment (in Book II of the Social Code).
Status of Implementation and Impact	1) The extension of networks for activation, counselling and opportunities shall be set up step-by-step from 2016 on. Many Job Centres show interest in participating in the initiative. A first kick-off took place in April 2016, conferences on a more local and regional level will follow in autumn 2016. 2) 333 Job Centres participate in the ESF programme since its set-up in 2015. First evidence shows that up to 7,000 long-term unemployed persons found a new job until June 2016. One of the most important and innovative issues of this programme is a coaching scheme which goes along once the long-term unemployed person took up a job. 3) Currently, 105 Job Centres take part in the programme for social participation in the labour market. It intends to provide supported employment for 10,000 persons until expiration at the end of 2018. Target persons are long-term unemployed who live in households with children or have severe hindrances taking up a job for health reasons. For 2017 and 2018 expansion of the programme is planned. 4) First steps of the work on connecting employability and health promotion are implemented: The German pension insurance, the Public Employment Service, the Association of German Municipalities, the German County Association and the

	Federal Ministry of Labour and Social Affairs agreed on common objectives. 5) The simplification of legal regulations is in progress. The German Federal Parliament held its first reading of the bill in April 2016.

• The policy action:	Promoting youth employment
Implementation path and expected date of implementation	Even more emphasis will be placed on job guidance, vocational orientation and counselling for young persons. Young persons will receive matching offers addressing their individual needs to avoid becoming "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. 1) Since 2015, the career entry support by mentoring has been slightly expanded, especially in the eastern part of Germany. It aims at guiding young persons likely to have difficulties in completing secondary school and coping with the transition to vocational training. It starts two years before they leave school and ends about six months after the beginning of a vocational training. If an immediate integration into vocational training is not successful, the support can last up to two years while the pupil is in the transition. 2) To support „NEETs" a new federal program „Strengthening Youth in the Neighbourhood" is implemented in the framework of the federal ESF operational programme. Young persons who are socially disadvantaged or with individual difficulties are offered suitable training or employment measures including social and educational support. This programme also provides support to young people from a migrant background. 3) At the end of 2014 the Federal Government launched the "Alliance for Initial and Further Training 2015-2018" together with the federal states, business and industry, the unions and the Federal Employment Agency (BA). It seeks to give every young person interested in vocational training a "roadmap" of the fastest track to a vocational qualification. 4) The successful completion of the school-to-work-transition is a main task for the Federal Government. To this end, the federal cabinet agreed on a national implementation plan for the EU Youth Guarantee in April 2014 with the goal to 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. It has reached implementation stage in Germany.

Status of Implementation and Impact	In 2015, Germany had a youth unemployment rate of 7.2 % (Eurostat) which is the lowest unemployment rate for youth in the EU (15-24 years). 1) The career entry support by mentoring targets pupils likely to have difficulties in completing secondary school and coping with the transition to vocational training. The mentoring is part of the Educational Chains Initiative. Career entry support by mentoring started in March 2015. Approx. 113,000 pupils and 3,000 schools will participate until 2022. Budget: about 1 billion € (thereof about 500 million € provided by the European Social Fund) 2) The ESF co-financed programme “Strengthening Youth in the Neighbourhoods” started in 2015 with ESF funding and a budget of 115 million €. Cooperation between municipal structures and across agencies is designed to support the young deprived people in pilot regions in disadvantaged areas (178 municipalities, 2015-2018). 3) In the framework of the “Alliance for Initial and Further Training 2015-2018” the business community made considerable commitments for the coming years: i) provide 20,000 additional training places in 2015 compared with the number of training places reported to the Federal Employment Agency in 2014 and plans to maintain this level in the following years as well, ii) 500,000 early-stage career orientation internships each year, iii) three vocational training placement offers for each young person without contract by 30 September of each year. The Federal Government introduced "Assisted Training" as a temporary new support instrument with almost 5,000 places created nationwide in the 2015/16 training year and expanded the target group eligible for training-related assistance. 4) Existing labour market policy instruments are used to implement the key recommendations of the EU Youth Guarantee. The Federal Employment Agency plays a central role drawing on a nationwide net-work (including local-level Job Centres). Provided services will be more needs-based reaching young people in need of assistance in the labour market integration process (e.g. with follow-on services).

• The 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 coalition parties have submitted the final report of the working group "Flexible transitions into retirement" in November 2015. Therein they have agreed on various proposals for a more flexible and self-determined transition from work into retirement, which correlates better with individual life plans. A draft of the new Flexible Retirement Act has recently been presented by the coalition parties.
Status of Implementation and Impact	The proposal is planned to be implemented in2017.

• The policy action:	**"Energiewende": transforming the energy sector in particular to increase the share of renewable energies and to enhance energy efficiency**
Implementation path and expected date of implementation	The energy transition ("Energiewende") is Germany's long-run strategy to base its energy supply system predominantly on renewable energy sources. At the same time, it contributes to attaining the targets for the mitigation of greenhouse gas emissions and to the development of new technologies and growth sectors. The energy transition is based on two strategic pillars, renewable energy and energy efficiency, on which Germany has set ambitious goals and targets up until 2050. These include increasing the share of renewable energies in gross electricity consumption to at least 35 % in 2020 and at least 80 % in 2050, and reducing primary energy consumption by 20 % by 2020 and by 50 % by 2050 (compared to 2008).
Status of Implementation and Impact	Germany has made significant headway in bringing forward the energy transition. In 2015, the share of renewables in gross electricity consumption has risen to 32.6 % while primary energy consumption has dropped by 7.5 % (provisional data) compared to 2008 levels. The 10-Point Energy Agenda of the Ministry for Economic Affairs and Energy contains the key projects of the energy transition during the current legislative term (2013-17) and integrates the various parts of the energy reforms in terms of timing and substance. Clear and stable policy frameworks are essential for investors to operate. One of the current key projects is shaping the future electricity market design which dovetails conventional and renewable electricity generation while ensuring security of supply at the lowest possible costs (White Paper published in 2015, Electricity Market Act adopted in 2016). Other central measures concern the promotion of renewable energy sources (a revision of the Renewable Energy Sources Act, adopted in 2016, establishes auctions to determine funding for renewable electricity generation through competitive bidding) and the development and expansion of transmission and distribution grids. At the same time, measures to increase energy efficiency, as stipulated by the National Energy Efficiency Action Plan adopted in 2014, are subsequently implemented and

	augmented. Between 2016 and 2020 the German Federal Government will provide 17 billion € via public support programs to improve energy efficiency. In the last years, billions were invested in the restructuring of the German energy system. Investment measures to increase the amount of renewable energy and to expand the electricity grids are primarily being undertaken by the private sector. It has a far-reaching impact on other sectors. Via upstream interlinkages, it generates added value in many areas of the economy. It represents the main positive influence exerted by the energy transition on economic growth. In order to closely monitor implementation and effects of the energy reforms and to be able to intervene where necessary, the Federal Government has launched the “Energy of the future” monitoring process. The Fourth Monitoring Report was published in November 2015.

• The policy action:	Development cooperation
Implementation path and expected date of implementation	Germany increases its engagement in development cooperation with the aim to foster sustained, inclusive, resource-efficient and low-carbon growth in developing countries. The Federal Government will provide an additional amount of 10.3 billion € over the period 2014-2019 in order to increase the official development aid (ODA) quota towards the international target of 0.7 % of 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 continues to support the development of its partner 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.
Status of Implementation and Impact	On track.

Investment Strategy Commitments

	Facilitators / Safeguards
Investment Ecosystem	Germany's general regulation for private investment is highly favourable as firms operate in an environment of sound institutions, favourable macroeconomic conditions and dynamic and competitive firms. The Federal Government vigorously reduces red tape with the *Bürokratieentlastungsgesetz* (Bureaucracy Relief Act) that entered into force in the beginning of 2016 and a reform of public procurement law. Relief of about 1.4 billion € per annum is expected and should benefit start-ups, growing firms and SMEs disproportionately. The principle "one in, one out" ensures that any new bureaucratic burden on businesses has to be balanced by a decrease of the same amount elsewhere. Recently, the Federal Government has decided on a second Bureaucracy Relief Act as part of its renewed Work Programme. The law is scheduled for parliamentary consideration in the second half of 2016, with the main provisions coming into force in January 2017. The "Digital Agenda" launched in 2014 will improve the investment ecosystem by making better use of the innovation potential, supporting the development of extensive high-speed networks, enhancing the security of IT systems and providers, and promoting media literacy of all generations. The government furthermore targets investments related to digitalization in SMEs and specific sectors with the initiative "Mittelstand 4.0 – Digitale Produktions- und Arbeitsprozesse" ("Mittelstand 4.0 – Digital Production und Work Processes"). See also section C2 and Brisbane/Antalya Key Commitment *Invest in research and education and implement the "High-Tech Strategy"*.
Infrastructure	The Federal Government plans to establish an infrastructure entity that manages the national highway system. This entity will be organized on the basis of private-sector principles to increase efficiency and will cover the whole life-cycle of projects, including planning, financing, construction and maintenance and operation. The entity will be financed mainly by user fees. Private investors can also be involved (on project level). Furthermore, the ÖPP Deutschland AG will be transformed into a public advisory centre to support municipalities with local infrastructure projects, covering both PPP and conventional procurement. This ensures fast and efficient upgrading of infrastructure. With regard to infrastructure investment, the government further analyses

	the potential of private capital for infrastructure projects, through innovative ways of financing public investment projects. The participation of private investors can play an important role in providing infrastructure in a cost-efficient way by standardizing projects and by reducing transaction costs. See also Brisbane/Antalya Key Commitment *Additional public investment, especially in public infrastructure*.
SMEs	German small and medium-sized enterprises (SMEs) are generally well placed for investment and growth – thanks in part to high capital ratios, which are continuing to increase. Own funds are the most important source of financing for SMEs and have gained importance in recent years (they accounted for 49 % of investment financing in 2014). Bank loans remain the most important external financing source (at 31 %), followed by state funding (15 %) and other financing sources (5 %, including private equity capital and mezzanine capital). Access to external financing has improved greatly for German SMEs in recent years, in particular as a result of the good availability of low-interest and long-term bank loans (in 2014, the credit supply gap for SMEs was close to zero). Moreover, additional credit at subsidised rates with partial risk assumption is being provided by the German national development bank KfW for the financing of SMEs. There remain, however, financing gaps for businesses in Germany, in particular for innovative start-ups and young companies. Hence the financing environment must be further improved. Making equity capital available plays an important role in this. The German Federal Government already offers various funding instruments for founding and expanding innovative SMEs (High-Tech Start-Up Fund, ERP/EIF Fund of Funds, European Angels Fund). To promote capital market-based business financing – including venture capital – the German Federal Government is planning, or has recently implemented, further measures. These comprise: • <u>Tax exemption of the Investment Grant for Venture Capital (“INVEST Zuschuss für Wagniskapital” introduced in 2013)</u>: In this funding measure, private investors (e.g. business angels) are refunded 20 % of their investment into young, innovative companies, provided they stay invested for at least three years. At the end of 2014, the “INVEST Zuschuss für Wagniskapital” has been retroactively exempted from taxation which makes this funding measure more attractive. On top of that the funding programme will be further extended e.g. doubling of the eligible amount to be invested and refunding of the taxes on capital

gains.

- Additional financing facility for increasing the market for expansion financing: In order to make possible large-scale financing of up to 40 million € per expansion-stage company, Germany (via its European Recovery Programme (ERP)) has set up together with the European Investment Fund (EIF) an expansion facility comprising 500 million €, which will act as a co-investor providing expansion financing to firms. Time frame: The facility was launched in March 2016.
- KfW as an anchor investor: KfW has recommited itself as a fund investor (anchor investor) in the German venture capital market, with a programme volume of 400 million € in the coming years (with the European Recovery Programme (ERP) bearing the risk). The investments are to go directly to private venture capital funds that invest in technology-oriented enterprises during their early and expansion stages. Time frame: The programme has been started in April 2015.
- New co-investment fund "coparion": ERP Special Fund and KfW have set up the new funding instrument "coparion" which totals in 225 million € and is aimed at companies in the start-up and early growth phase. The fund is organised as a separate company headed by an experienced management team and replaces the new business of the former funding instrument ERP-Startfonds. Time frame: "coparion" was launched in March 2016.

Beyond this, Germany is currently reviewing further measures for supporting the venture capital market, including ways of how to facilitate exits, notably through better access to stock markets (IPOs).

At the European level, the capital markets union (CMU) should play a key role in unlocking the potential of private-sector financing for SMEs. See EU growth strategy for more details.

In addition to improving capital market-based financing, Germany is also considering a simplified regulatory regime for banks specifically adjusted to serve the needs of smaller banks and their financing of smaller enterprises, to be established in the medium term. This approach could be particularly beneficial for regions and sectors underserved by international investors and by larger banks and could thus boost access to finance for small SMEs.

Any new regulatory measure must complement the regulatory framework established in the past years, together with the immense amount of delegated legislation still to come.

Annex 2. New and Adjusted Policy Commitments since Antalya

• The new or adjusted policy action:	Promoting Digitalisation
Implementation path and expected date of implementation	In August 2014 the Federal government has adopted the "Digital Agenda", a government strategy aiming at strengthening growth and employment in the digital sector. The "Digital Agenda" sets targets and defines measures to be reached by 2017 regarding a wide range of areas such as digitising the German industry and investments in telecommunication infrastructure (see also Section D.). The Digital Agenda will be implemented together with the business community, the social partners, civil society and academia. In April 2015, the Federal Ministry for Economic Affairs and Energy and the Federal Ministry of Education and Research have relaunched the "Plattform Industrie 4.0" to speed up the digitalisation of the manufacturing industry). Within the platform, more than 200 national experts, e.g. from businesses and trade unions are active. The stakeholders engaged in the platform strive for developing common recommendations for future actions which shall serve as common and reliable framework conditions, concerning standardization, research and innovation, security of networked systems , legal framework and work, education and training. The platform serves as a unique communication channel to the public and closely cooperates with regional and local multipliers to spread "Industrie 4.0" to the German regions. At the international level, bilateral and multilateral cooperation exists. Moreover the Ministry for Economic Affairs and Energy has launched the platform "Innovative Digitisation of the Economy". The platform identifies needs for priority action in the field of digital economy and accelerates solutions by joint actions. It addresses the identification of innovation-friendly framework conditions, promotes smart interconnection, discloses needs for action in the field of digital services, encourages SMEs changing over into digital economy as both ICT provider and consumer, and supports the young digital economy.
What indicator(s) will be used to measure progress?	Each year, the Federal government publishes a monitoring report on the progress of digitalisation in Germany. Moreover, the Federal Government holds an annual national IT summit focusing on the main spheres of activity covered by the Digital Agenda. The summit

	has been designed as a platform for collaboration between policy makers, industry, academia and civil society. Its aim is to enable a broad social and economic dialogue on the different areas of digitalisation.

Annex 3. Past commitment – St. Petersburg fiscal commitment

Germany has fully complied with the Toronto commitment on public deficits and will also comply with the commitment on public debt: Public debt is projected to amount to 68 ¼ per cent of GDP in 2016, compared to the 2010 reference value of 76.7 as projected by the IMF in April 2010. Bringing public debt levels on a downward path and back to a sustainable level is a priority of the German government. Sound public finances are an essential prerequisite for confidence of market participants, private investment and economic growth. See also section B.

Medium-term projections, and change since last submission* (required for all members):

	Estimate Projections (April, 2016)						
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Gross Debt	74.7	71.2	68 ¼	65 ¾	63 ½	61 ½	59 ½
ppt change	-0.2	0	- ½	- ¼	- ¼	0	
Net Debt							
ppt change							
Fiscal balance**	0.3	0.6	0	0	0	0	0
ppt change	0	-0.3	0	- ¼	- ½	- ½	
Primary Balance	2.1	2.3	1 ¼	1 ¼	1 ¼	1 ¼	1 ¼
ppt change	0	0	- ¼	- ¼	- ½	- ¾	
CAPB	2.3	2.5	1 ½	1 ¼	1 ¼	1 ¼	1 ¼
ppt change	0	0	0	- ¼	- ½	- ¾	

*Last submission based on projection as of October.

**Negative value signifies a budgetary deficit; positive value signifies budgetary surplus. For 2015: actual figure as of May 2016.

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

	Estimate Projections (April, 2016)						
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Real GDP growth***	1.6	1.4	1.6	1.7	1.7	1.6	1.2
ppt change	0	-0.1	-0.1	0	0	0	
Nominal GDP growth	3.4	3.8	3.6	3.3	3.2	3.2	
ppt change	0	-0.2	0.2	0	0.1	0.1	
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							

***Seasonally and working-day adjusted

Annex 5. Key Economic Indicators

	Estimate Projections (April, 2016)*					
	2015	2016	2017	2018	2019	2020
Real GDP (% yoy)**	1.4	1.6	1.7	1.7	1.6	1.2
Nominal GDP (% yoy)	3.8	3.6	3.3	3.2	3.2	3.2
Output Gap (% of GDP)***	-0.4	-0.2	-0.2	-0.1	0	0
Inflation (%, yoy)	0.3	0.5	1.7			
Fiscal Balance (% of GDP)****	0.6	0	0	0	0	0
Unemployment (%)	4.3	4.1	4.3	4.4	4.6	4.7
Savings (% of GDP)	27.5	27.5	27.4			
Investment (% of GDP)	18.8	19.0	19.3			
Public Fixed Capital Investment (% GDP)	2.2	2 ¼	2 ¼	2 ¼	2 ¼	2 ¼
Private Fixed Capital Investment (% GDP)	17.9	17.9	18.1	18.2	18.3	18.3
Total Fixed Capital Investment (% GDP)	20.0	20.2	20.4	20.5	20.6	20.7
Current Account Balance (% of GDP)	8.6	8.5	8.2			

*Projection 2015-2020 as of April, 2016; fiscal balance 2015 actual figure as of May 2016.

**Seasonally and working-day adjusted.

***A positive (negative) gap indicates an economy above (below) its potential.

****A positive (negative) balance indicates a fiscal surplus (deficit).