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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Germany and delivering a Council opinion on the 2023 Stability Programme of Germany

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2023) 605 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Germany and delivering a Council opinion on the 2023 Stability Programme of Germany

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified Germany as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on Germany's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

[4] COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains.
On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

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5 COM(2023) 62 final.
6 COM(2023) 168 final.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

[7] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

8 COM(2023) 141 final.
9 COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(9) On 28 April 2021, Germany submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Germany[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Germany has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

[10] Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Germany (ST 10158/21 and ST 10158/21 ADD 1).

(10) On 24 April 2023, Germany submitted its 2023 National Reform Programme and, on 26 April 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Germany's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for Germany[11] on 24 May 2023. It assessed Germany's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Germany's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Germany's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

[11] SWD(2023) 605 final.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Germany and published its results on 24 May 2023[12]. It concluded that Germany is experiencing macroeconomic imbalances. In particular, the persistent large current account surplus, reflecting also subdued investment relative to savings, which has cross-border relevance, has been gradually reduced, most recently amid the energy crisis, but is expected to increase markedly. The current account surplus receded slowly until 2019 with a gently increasing domestic investment ratio and a falling trade balance and has since been marked by unusual economic circumstances. It decreased markedly in 2022 on the back of higher import energy prices, along with a narrowing of the non-energy trade surplus and a recovery in tourism imports. In 2022, the surplus remained above the levels suggested by the country's fundamentals and it is expected to rebound markedly in 2023 and remain almost unchanged in 2024, it is projected to stay below the MIP threshold. Wages are forecast to grow strongly, supporting domestic demand, while unit labour costs may grow faster than in the rest of the euro area. Nonetheless, consumption and investment are temporarily dampened by high inflation. In recent years, house prices have shown sharp increases, even if easing somewhat since mid-2022. Housing supply cannot catch up with demand amid weak residential investment, which may add to continuing risks of overvaluation. A further reduction of vulnerabilities would benefit from the timely and effective implementation of the public investment initiatives and removing of obstacles to investment.

12 SWD(2023) 629 final.

(13) Based on data validated by Eurostat,[13] Germany's general government deficit decreased from 3.7% of GDP in 2021 to 2.6% in 2022, while general government debt fell from 69.3% of GDP at the end of 2021 to 66.3% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;[14] the report discussed the budgetary situation of Germany, as its deficit is planned to exceed 3% of GDP in 2023. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 8 March 2023,[15] the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Germany should take account of this in the execution of its 2023 budget and in preparing the Draft Budgetary Plan for 2024.

(14) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included a reduction of the energy tax on fuels and a reduction of the value added tax on gas and district heating; while such expenditure-increasing measures included an energy lump-sum bonus and the take-over of the December bill for private gas consumers. The Commission estimates the net budgetary cost of these measures at 1.2% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.8% of GDP in 2022, from 4.2% in 2021.

(15) On 18 June 2021, the Council recommended that in 2022 Germany[16] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

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[13] Eurostat-Euro Indicators, 47/2023, 21.4.2023.
[14] COM(2023) 631 final, 24.5.2023.
[15] COM(2023) 141 final, 8.3.2023.
[16] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Germany, OJ C 304, 29.7.2021, p. 18.

(16) According to the Commission estimates, the fiscal stance[17] in 2022 was supportive, at -2.7% of GDP, as recommended by the Council. As recommended by the Council, Germany continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2022 (0.3% of GDP in 2021). Nationally financed investment provided a neutral contribution to the fiscal stance.[18] Germany therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 2.4 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.2% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). At the same time, tax reductions in income taxation lowered government revenues and also contributed (0.1% of GDP) to the growth in net primary current expenditure. The significant expansionary contribution of nationally financed current expenditure was only partially due to the measures to address the economic and social impact of the increase in energy prices, as well as the costs to offer temporary protection to displaced persons from Ukraine. Germany therefore did not sufficiently keep under control the growth in nationally financed current expenditure.

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[17] The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

[18] Other nationally financed capital expenditure provided an expansionary contribution of 0.4 percentage points of GDP. This contribution is mainly related to the nationalisation and recapitalisation of wholesale gas suppliers in Germany for guaranteeing energy security.

(17) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is in line with the Commission 2023 Spring Forecast. The government projects real GDP to grow by 0.2% in 2023 and 1.8% in 2024. By comparison, the Commission 2023 spring forecast projects a similar real GDP growth of 0.2% in 2023 and 1.4% in 2024.

(18) In its 2023 Stability Programme, the government expects that the general government deficit ratio will increase to 4¼% of GDP in 2023. The increase in 2023 mainly reflects the additional expenditure for the energy price brakes regarding gas and electricity. According to the Programme, the general government debt-to-GDP ratio is expected to increase from 66.3% at the end of 2022 to 67¾% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 2.3% of GDP for 2023. This is lower than the deficit projected in the Stability Programme, mainly due to assumed lower expenditure for the energy price brakes. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 65.2% at the end of 2023. The difference is due to the lower deficit.

(19) The government balance in 2023 is expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of new measures compared to 2022, in particular the energy price brakes for gas and electricity. The cost of these measures is partly offset by taxes on windfall profits of energy suppliers, namely a levy on extraordinary profits. Taking these revenues into account, the net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 2.0% of GDP in 2023[19]. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, although many of them preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.5% of GDP in 2023 (compared to 0.3% of GDP in 2022). The budgetary cost of temporary protection to displaced persons from Ukraine is projected to remain stable compared to 2022. Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 0.8% of GDP.

[19] The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

(20) On 12 July 2022, the Council recommended[20] that Germany take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[21], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Germany should stand ready to adjust current spending to the evolving situation. Germany was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

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20 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Germany and delivering a Council opinion on the 2022 Stability Programme of Germany, *OJ C 334, 1.9.2022, p. 35*.

21 Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Germany, which is used to measure the fiscal stance, is estimated at 7.1% in nominal terms.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+0.5% of GDP), in a context of high inflation. This follows an expansionary fiscal stance in 2022 (-2.7% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.3% of GDP to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.2% of GDP. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 0.2% of GDP in 2023, while nationally financed investment is projected to provide a neutral contribution to the fiscal stance[22]. Therefore, Germany plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as energetic renovation of buildings, improvement of a charging infrastructure for electric cars and equipping schools for the digital age, which are partly funded by the Recovery and Resilience Facility and other EU funds.

[22] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.3 percentage points of GDP. This contribution is mainly related to the discontinuation of the measure to nationalise and recapitalise wholesale gas suppliers in Germany for guaranteeing energy security of the year before.

(22) According to the Stability Programme the general government deficit is expected to decline to 1¾% of GDP in 2024. The decrease in 2024 mainly reflects the phasing out of the energy price brakes. The programme expects the general government debt-to-GDP ratio to decrease to 66½% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 1.2% of GDP in 2024. This is lower than the deficit projected in the programme, mainly due to lower estimations for the energy support measures. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 64.1% at the end of 2024, mainly due to the lower deficit.

(23) The Stability Programme envisages the phasing out of most of the energy support measures in 2024. The Commission currently assumes the net cost of energy support measures at 0.3% of GDP in 2024. These estimates hinge upon the assumption of no renewed energy price increases. Most of the energy support measures that are currently planned to remain in place in 2024 do not appear targeted to vulnerable households or firms. Most of them preserve the price signal to reduce energy demand and increase energy efficiency.

(24) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.[23] Taking into account fiscal sustainability considerations, an improvement in the structural balance of at least 0.3% of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally-financed primary expenditure[24] in 2024 should not exceed 2.5%, as reflected in this recommendation.

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[23] Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

[24] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

At the same time, the remaining energy support measures (currently estimated by the Commission at 2.0% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024.

(25) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 2.4% in 2024, which is below the recommended growth rate. The adjustment projected in the Commission forecast is less than the savings from the full phasing out of energy support measures, which is due to some of such measures remaining in force in 2024 and to revenue decreasing discretionary measures such as various reductions in income tax.

(26) According to the programme, government investment is expected to remain stable at 2½% of GDP in 2023 and in 2024. The programme refers to reforms and investments, that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include various reforms of the income tax system as well as of the pension system.

(27) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to gradually decline to ¾% of GDP in 2025 and 2026. The general government deficit is therefore planned to decrease below 3% of GDP in 2024. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 66½% at the end of 2024 to 65½% by the end of 2026.

(28) While employment performance remains robust, in a context of rapid population ageing, labour and skills shortages are expected to increase further. The working age population is expected to shrink by 3.7 million in the 2020s due to the baby boomer generation retiring. This will significantly increase the financing needs of the mandatory pay-as-you-go system (first pension pillar), and possibly challenge the adequacy of pensions. A net migration balance of around 400 000 people a year would be needed to offset a decreasing level of potential labour force. The statutory retirement age will gradually rise to 67 years in 2031. Although the employment rate of workers aged 55-64 is among the highest in the EU, the increase in the effective retirement age has slowed in recent years, and employment in the age group above 65 years lags behind the EU's top performers. This is also due to early retirement options, adding further pressure on the sustainability of the pension system. People who have worked at least 35 years can retire early, with a relatively small reduction in pension benefits. Those who have worked at least 45 working years can retire without losing pension entitlements (*Rente nach 45 Beitragsjahren*). The state-subsidised private pension schemes (third pillar personal pension schemes *Riester Rente*) have been underused so far. Despite efforts to increase the use of occupational pensions (second pillar), coverage remains at about 56%.

(29) The tax mix in Germany continues to rely heavily on labour tax revenues, while tax bases that can support inclusive and sustainable growth remain underused. The labour tax wedge is one of the highest in the EU, and the interplay of the tax and transfer system results in weak incentives to increase hours worked for low-wage and second earners, often women. This weighs on the labour supply and aggravates labour shortages. Germany's share of environmental taxes is below the EU average for both energy and transport taxation. Vehicle taxation does not encourage more environmentally friendly transport. Environmentally harmful subsidies such as fossil fuel subsidies (including tax exemptions and tax reductions) remain substantial, hampering the green transition.

(30) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. Proceeding swiftly with the implementation of the plan is essential due to the temporary nature of the Recovery and Resilience Facility in place until 2026. Still, while the implementation of Germany's recovery and resilience plan is underway, there are significant delays. Limited resources attached to the plan implementation and insufficient prioritisation have led Germany to fall behind on the implementation process. Germany still needs to sign its operational arrangements and submit its first payment request. Germany's recovery and resilience plan was already revised once on 14 February 2023, adjusting two investment measures that could not be fully completed because of objective circumstances[25]. The plan is expected to be revised again in 2023 with another addendum, to cover the REPowerEU chapter and to accommodate the increase of non-repayable support. However, negotiations on the REPowerEU chapter and to accommodate the increase of non-repayable support are ongoing. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Germany's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

25 Council Implementing Decision of 14 February 2023 amending the Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Germany (ST 5536/23).

(31) The Commission approved all of Germany's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience, as well as achieving balanced territorial development in Germany.

(32) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Germany faces a number of additional challenges related to digitalisation, energy policy and the green transition.

(33) While Germany has made efforts to improve the digitalisation of public services, implementation remains slow. Only a few of the objectives in the Online Access Act, which makes the continuous digitalisation of the front end of all administrative services mandatory, were achieved by the target date (end of 2022). The Commission's eGovernment Benchmark shows that the country is also underperforming on digitalising the back office, which is crucial for effective service delivery beyond the scope of the Online Access Act. In connection to this, modernising registers as part of the Register Modernisation Act to implement the EU's 'once-only' principle – where individuals and businesses only have to provide standard information once to authorities – has been declared a priority. However, there has been little progress since the law entered into force in 2021. Moreover, there is a low take-up of services that have been digitalised: Germany scores below the EU average in terms of the proportion of people using e-government services. Germany also performs below the EU average in various aspects of the eGovernment Benchmark indicators such as transparency, the existence of key enablers and the accessibility of digital public services to individuals from abroad. The National Regulatory Control Council considers the implementation of the Online Access Act inadequate and has identified projected labour shortages as a key risk in the absence of efficiency gains through digitalisation. The bottlenecks identified in the digitalisation of public services equally apply to corresponding measures in the German recovery and resilience plan.

(34) Improving digital skills is crucial for the digital transition to address skilled worker shortages and raise productivity. At 49% in 2021, Germany is below the EU average of 54% of those aged 16-74 with at least basic digital skills, hampering the digital transition. Of all 16-19-year-olds, only 50% had at least basic digital skills in 2021, 19 percentage points below the EU average. Although Germany scores above the EU average on the percentage of ICT specialists in employment and matches the EU average for female ICT specialists, there is a high number of unfilled vacancies, reflecting further needs. Further efforts at tackling teacher shortages and training teachers better in digitalisation at all educational levels would be key to improving digital skills. The integration of digital technology in business activities is only around the EU average, including the share of small and medium-sized businesses with at least a basic level of digital intensity and the uptake by businesses of advanced technologies such as cloud, big data and artificial intelligence. The German recovery and resilience plan includes several measures that support digital skills, and in particular digital education, such as investment in digital devices for teachers, an education platform and educational centres of excellence. Moreover, Germany is implementing measures to help up- and reskill its workforce. This includes focusing on the digitalisation of businesses (e.g. European Digital Innovation Hubs or the Digital Now (*Digital Jetzt)* investment support scheme).

(35) Overall, only 19.3% of households have access to a fibre broadband connection, placing Germany among the Member States with the lowest fibre coverage (second lowest in the EU, with the top five EU performers having fibre coverage of at least 85%). The lack of fibre connections and very high capacity networks in general is particularly pronounced in rural areas. This holds back productivity growth, especially by small and medium-sized businesses. The target of connecting 50% of households and businesses to the network via fibre optics by 2025 (and 100% by 2030) risks being delayed. Corresponding measures were included in the Gigabit Strategy of July 2022. Improving framework conditions, for example by increasing planning and implementation capacity in the public sector, is crucial to accelerate fibre coverage. Meeting the network targets will also require improvements to the administrative procedures involved in applying for and granting permits and the standardisation of alternative, less time-consuming installation methods.

(36) Germany managed to reduce its high dependence on Russian gas and oil effectively in 2022 compared to 2021 (from 65% to nearly zero for gas, and from 34.12% to below 25% for oil[26]). It has planned and started implementing natural gas infrastructure that would replace Russian gas imports completely in the medium term. Germany fulfilled its gas storage obligations last winter, reaching 99.2% by 1 November 2022. Thanks to interconnected gas markets, liquefied natural gas (LNG) imported by Germany would contribute to Europe's security of supply, provided the relevant infrastructure is implemented without further delays. At the same time, the country is still dependent on imported fossil fuels. Germany's consumption of natural gas has dropped by 16% in the period August 2022-March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target. Germany is encouraged to keep pursuing efforts to temporarily reduce gas demand until 31 March 2024[27].

26 Germany has not imported any Russian gas since August 2022 and oil since February 2023.
27 Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706.

(37) Renewable electricity is vital for the successful roll-out of Germany's green transition plans, including for renewable hydrogen production, electric vehicles and heat pumps as well as for achieving energy security in the medium term. However, a three-fold acceleration in the deployment of renewable energy (from +67% over the past 8 years to +196% in the coming 8 years) would be necessary to meet national deployment targets. Complex and lengthy permitting procedures have been holding back the roll-out of renewable energy sources and additional net-zero technologies, while recently adopted legislation to improve the processes has yet to be implemented. Beyond the challenges addressed, permitting is hampered by the lack of digitalisation and related skills as well as understaffed authorities, including courts. Bottlenecks remain with regard to grid flexibility, including storage, and the expansion of high voltage transmission grids, including the implementation of Projects of Common Interest. Moreover, Germany's distribution grids have not been sufficiently digitalised and upgraded to accommodate the many new manufacturers and consumers of electric vehicles, solar photovoltaic systems and heat pumps, while electricity storage could be expanded. Efforts on energy efficiency, including in transport, domestic heating and industry, and the roll-out of heat pumps in an affordable way face challenges in terms of scale-up and timely implementation to allow Germany to meet its climate and energy targets, reduce its reliance on fossil fuels and boost competitiveness and job creation, including in the clean tech manufacturing sector. Reaching climate targets requires further action to decarbonise the transport and building sectors. These have failed to meet national sector-specific emission targets for 2022, despite the introduction of measures such as a national carbon price to bring down emissions in these two sectors. The natural carbon sink in Germany has declined since 2016, which calls for action on forest and peatland restoration. Stronger efforts on climate adaptation, the circular economy and environmental protection reduce the risks from global challenges and contribute to climate resilience, securing natural resources and reducing the industry's dependence on critical raw materials.

(38) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. Improving the education outcomes of disadvantaged groups provides a better basis for continued education. Adult learning is essential to tackle persistent skills shortages. However, in the last 10 years the participation rate of adults in learning over the past 4 weeks has been roughly stable and below the EU average (8.1% in 2022; EU average 11.9%), and was only 4% for low-qualified workers. In addition, in energy-intensive industries, workers' participation in education and training declined from 9.8% in 2015 to 7.6% in 2021 and is below the EU average (8.9%). Promoting participation in initial and continuous vocational education and learning programmes to support the green transition would be in line with Germany's target of having 65% of adults in learning every year by 2030.

(39) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[28] is reflected in recommendation (1) below.

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28 Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

(40) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macrofinancial- stability and monitor risks while continuing to work on completing the Banking Union. For Germany, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second and third euro area recommendations.

(41) In light of the Commission's in-depth review and this assessment, the Council has examined the 2023 National Reform Programme and the 2023 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) below. Policies referred to in recommendation (1) help address vulnerabilities linked to the persistent large current account surplus. Recommendations (2), (3) and (4) contribute to addressing recommendation (1) in as much as higher investment is concerned. Policies referred to in recommendation (1) contribute to both addressing imbalances and implementing the recommendations for the euro area, in line with recital 40.

HEREBY RECOMMENDS that Germany take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally-financed net primary expenditure in 2024 to not more than 2.5%[29].

   Preserve nationally-financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions. Implement public investment initiatives as planned. For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

   Improve the tax mix for more inclusive and sustainable growth, in particular by improving tax incentives in order to increase hours worked. Safeguard the long-term sustainability of the pension system.

2. Significantly accelerate the implementation of its revised recovery and resilience plan, also by ensuring sufficient resources, and swiftly finalise the addendum and the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

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29 Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0.3% of GDP for 2024, as described in recital 24.

3. Speed up the digitalisation of the entire service chain for public services and improve people's digital skills. Remove investment obstacles and boost investment in very high capacity digital communication networks.

4. Increase efforts to further reduce the overall reliance on fossil fuels by boosting investment in and accelerating the deployment of renewable energy and electricity networks through improved administrative capacity and streamlined processes, including permitting procedures. Step up energy efficiency efforts in transport, building and industry, including through investments in heating systems and further policy measures aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President