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Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Germany and delivering a Council opinion on the 2022 Stability Programme of Germany

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Recommendation for a

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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:

(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 for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 stablishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Germany as one of the Member States for which an in-depth review[4] would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was adopted on 5 April 2022 by the Council, as well as the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered[5] for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 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, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[6]. In its Communication of 3 March 2021[7], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative

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4 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, OJ L 306, 23.11.2011, p. 25.

5 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1.

6 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

7 Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Stability Programme, the fiscal stance is currently best 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[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[9] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[10]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

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8 The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

9 Not financed by grants from the Recovery and Resilience Facility and other EU funds.

10 Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

(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[11]. 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) On 2 May 2022, Germany submitted its 2022 National Reform Programme and, on 27 April 2022, its 2022 Stability Programme, in line with the deadline established in Article 4 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 2022 National Reform Programme also reflects Germany's bi-annual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2022 country report for Germany[12] on 23 May 2022. It assessed Germany's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021 and took stock of Germany's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. 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, including those emerging from Russia's invasion of Ukraine. 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.

(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 23 May 2022[13]. The Commission concluded that Germany is experiencing macroeconomic imbalances. In particular, vulnerabilities relate to a persistent large current account surplus, which reflects subdued investment relative to savings, and has cross-border relevance.

(13) On 27 April 2022, Germany submitted a new Draft Budgetary Plan for 2022. The Commission has provided an Opinion on that Plan in accordance with Article 7 of Regulation (EU) No 473/2013.

(14) On 23 May 2022, the Commission issued a report under Article 126(3) TFEU. This report discussed the budgetary situation of Germany, as its general government deficit in 2021 exceeded the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 2 March 2022, the Commission did not propose to open new excessive deficit procedures in

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

[12] COM(2022)607 final, 23.05.2022

[13] COM(2022)600 final and SWD(2022)629 final, 23.05.2022.

spring 2022 and it will reassess the relevance of proposing to open excessive deficit proceduresin autumn 2022.

(15) On 20 July 2020, the Council recommended Germany to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Germany to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Germany's general government deficit fell from 4.3% of GDP in 2020 to 3.7% in 2021. The fiscal policy response by Germany supported the economic recovery in 2021, while temporary emergency support measures increased from 2.7% of GDP in 2020 to 4.2% in 2021. The measures taken by Germany in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of an increase in family allowances like the child allowance and child tax free allowance as well as increased possibilities for depreciation. Based on data validated by Eurostat, general government debt stood at 69.3% of GDP in 2021.

(16) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is favourable in 2022 and realistic thereafter. The government projects real GDP to grow by 3.6% in 2022 and 2.3% in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 1.6% in 2022 and a similar of 2.4% in 2023. This difference is mainly due to different cut-off dates of the projections, which in the case of the Stability Programme was before the start of Russia's war of aggression against Ukraine when the growth outlook for 2022 was still more optimistic. In its 2022 Stability Programme, the government expects that the headline deficit will remain at 3¾% of GDP in 2022 and decrease to 2% in 2023. The similar level in 2022 mainly reflects continued emergency measures due to the pandemic, increased defence spending and measures against heightened energy prices in reaction to the war in Ukraine together with additional spending and investment in the green transition. According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 66¾% in 2022, and to 65¾% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 2.5% of GDP and 1.0% respectively. This is lower than the deficit projected in the 2022 Stability Programme for 2022 and 2023, mainly due to slightly lower tax revenue projections based on cautious calculations in November 2021 and more optimistic expectations for implementing subsidies and public investment in the Programme. The Commission 2022 spring forecast projects a similar general government debt-to-GDP ratio, of 66.4% in 2022 and a lower of 64.5% in 2023. The difference is due to a similar difference in the deficit forecast.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 1.1%. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Germany's potential growth.

(17) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected

to decline from 4.2% of GDP in 2021 to 1.2% in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 0.7% of GDP in 2022 and are expected to be phased out in 2023.[14] These measures mainly consist of a targeted subsidy for heating costs; advancement in the abolition of the levy for renewable energy (*EEG-Umlage*); advancement of increase in commuter allowance (*Pendlerpauschale*); reduction of the energy tax on fuels for 3 months; one-time payment of energy price lump-sum (*Energiepreispauschale*) and supplement for every child; one-time lump-sum payment to receivers of social assistance; monthly ticket for local public transport at reduced price for 3 months. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures could be continued. Some of these measures are not targeted, notably the increase in commuter allowance and the reduction of the energy tax on fuels. The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.1% of GDP in 2022 and 0.2% in 2023[15], as well as the increased cost of defence expenditure by 0.4% of GDP in 2022 and 0.5% of GDP in 2023.

(18) On 18 June 2021, the Council recommended that in 2022 Germany[16] maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. It also recommended Germany to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

(19) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Germany's 2022 Stability Programme, the fiscal stance is projected to be supportive at -1.6% of GDP as recommended by the Council.[17] Germany plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to remain stable compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.2 percentage points in 2022.[18]

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14 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

15 The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

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.

17 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

18 Other nationally-financed capital expenditure is projected to provide a contractionary contribution of 0.1 percentage point of GDP.

Therefore, Germany plans to preserve 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) in 2022 is projected to provide an expansionary contribution of 1.5 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.7% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP), while additional spending for the green transition (0.2% of GDP) is also projected to contribute to the growth in net current expenditure.

(20) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at 0.6% of GDP on a no-policy change assumption.[19] Germany is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to decrease by 0.1 percentage point of GDP compared to 2022. Nationally-financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage point in 2023.[20] At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 0.7 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.7% of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0.05% of GDP) compared to 2022.

(21) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 1¾% of GDP in 2024 and to 1% by 2025. These projections assume increasing government revenues as a percentage of GDP, while government expenditure as a percentage of GDP is expected to remain relatively stable. According to the Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 65¾% in 2024, and a decline to 65% in 2025. Based on the Commission's analysis, debt sustainability risks appear low over the medium term.

(22) Ageing, and a tightening labour market, will greatly affect Germany in the next years. The statutory retirement age will reach 67 years in 2031, but more adjustments are needed to ensure sustainability of the pension system in the long run. Stronger work incentives would be needed also in view of a tightening labour market. The government's commitment to maintaining a cap on the pension contribution rate and a minimum income replacement rate (*Doppelte Haltelinie*) implies a need for significant fiscal transfers, increasing further the burden on younger generations. State-subsidised private pensions (*Riester Rente*) have failed to play a substantial role in the pension mix. The returns are low and the administrative costs high. Low-income earners in particular cannot achieve sufficient retirement savings.

(23) The tax system relies heavily on labour tax revenues while tax bases that are less harmful to inclusive growth remain underused. The labour tax wedge in Germany is

[19] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

[20] Other nationally-financed capital expenditure is projected to provide a neutral contribution.

one of the highest in the EU. This reduces take-home pay and creates disincentives to increase hours worked for certain groups such as low- and middle-income earners and second earners; this acts against better use of the labour potential even as labour shortages loom. Revenues from environmental taxes are comparatively low, while environmentally harmful subsidies (including tax reductions and tax exemptions) undermine environmental sustainability targets and counteract decarbonisation, energy efficiency and renewable energy deployment.

(24) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2, to Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Germany by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a plan. In particular, it contributes to addressing the need to boost public and private investment, notably for the green and digital transition, in sustainable transport, in clean, efficient and integrated energy systems, in the digitalisation of the public administration and health services, in education, and in research and innovation.

(25) The implementation of the recovery and resilience plan of Germany is expected to contribute to making further progress on the green and digital transition. Measures supporting the climate objectives in Germany account for 42% of the plan's total allocation, while measures supporting digital objectives account for 52% of the plan's total allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Germany swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains essential 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.

(26) By 4 April 2022, Germany submitted the cohesion policy programming documents[21] for all 15 European Regional Development Fund programmes, all 16 European Social Fund Plus programmes and a mixed European Regional Development Fund / European Social Fund Plus programme. The Commission approved the Partnership Agreement with Germany on the use of cohesion policy funds on 19 April 2022 .In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Germany has taken into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks

[21] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

to investment to support the green and digital transition and balanced territorial development.

(27) Beyond the economic and social challenges addressed by the recovery and resilience plan, Germany is still lagging in deploying very high-capacity broadband in rural areas, where stronger investment has the potential to improve productivity growth and the savings-investment imbalance. Overall, Germany significantly improved very high-capacity broadband coverage over the last year and is currently above the EU average. However, in rural areas the coverage was 22.5%, below the EU average of 37.1%. At the same time, only 15.4% of households have access to a fibre connection (compared with an EU average of 50%), which places Germany among the Member States with the lowest fibre coverage, while the top five EU performers have fibre coverage of at least 85%. The lack of fibre connections is accentuated in rural areas (11.3% versus 33.8% EU average). This holds back productivity growth, especially by small and medium-sized businesses, many of which are located in rural and semi-rural areas. Broadband expansion and 5G are not covered in Germany's recovery and resilience plan. There are schemes at federal and regional level aiming at improving connectivity in grey areas and mobile connectivity in white spots. The coalition agreement contains ambitious goals on the nationwide availability of fibre and 5G to all German households, while the implementation deadline still has to be specified. The increase in civil engineering planning and management capacity in the private sector and in planning and implementation management in the public sector will be crucial for timely delivery. Meeting the targets will also require improvements in the application and permit granting procedures as well as the standardisation of alternative, less time consuming, installation techniques.

(28) In response to the mandate by the EU Heads of State or Government set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.

(29) Germany faces challenges related to its dependency on fossil fuels and on energy imports from Russia as well as to the framework conditions for investment in a fully integrated sustainable energy system. According to 2020 data, the dependence on gas imports from Russia is particularly high (65%[22]) and higher than the EU average (44%). The dependence on oil imports from Russia is also higher than the EU average (34% in Germany compared with an EU average of 26%)[23]. More than half of Germany's energy mix comes from gas (26%) and oil (35%). This dependence has direct implications for Germany's industry, which represents 35% of the final energy consumption of natural gas. Faster progress with the expansion of transmission and distribution grids and with the deployment of renewable energies is crucial to address these challenges, to meet climate and energy targets and to boost investment relative to savings. Stronger efforts are needed to diversify energy supplies and routes, making

[22] According to recent data by the German Federal Ministry of Economic Affairs and Climate Action the share in total gas imports has decreased to 35%.

[23] Eurostat (2020), share of Russian imports over total imports of natural gas and crude oil. For the EU27 average, the total imports are based on extra-EU27 imports. For Germany, total imports include intra-EU trade. Crude oil does not include refined oil products.

use of all available carbon-free sources of energy, in particular through the deployment of renewable electricity and gases, including renewable hydrogen, and of liquefied natural gas. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. Further increase in ambition for reducing greenhouse gas emissions and increasing renewables and energy efficiency will be needed for Germany to be in line with the 'Fit for 55' objectives. Efforts are needed to accelerate decarbonisation of the industry, improve flexibility options and the response by energy consumers to varying prices, and strengthen energy system integration[24]. Action should also be taken to increase energy efficiency and reduce energy consumption, and to accelerate decarbonisation of the building stock, and the transport sector, which in 2021 failed to meet the annual national emission targets for these sectors. Greater uptake of shared mobility and sustainable public transport can reduce fossil fuel consumption. The expansion of Germany's electricity networks has suffered from significant delays. Key obstacles are, among others, the complexity and length of planning, permit and appeal procedures. The delays in the expansion of electricity networks have made it necessary to curtail renewables in certain areas. Furthermore, the delays in extending electricity grids significantly affect the networks of neighbouring Member States since network capacity within Germany is not sufficient to transport the volumes of electricity traded within the respective price zone. The government has committed to increasing the share of renewables in electricity generation to 80% by 2030 and to almost 100% by 2035. However, renewable deployment, in particular onshore wind, has suffered from a significant slowdown in recent years due to persisting implementation barriers. The removal of implementation barriers includes taking steps to solve conflicts over land use at an early stage, easing minimum distance rules, improving the use of spatial planning to identify zones for wind energy deployment, and making it easier to obtain permits. Local acceptance can be improved, including through a more streamlined consultation process, increased citizens' participation and revenue sharing in projects. The expansion of renewables and the increase in energy efficiency will not only reduce energy imports dependency but also significantly lower energy prices. Finally, participation in energy-related cross-border cooperation can be further strengthened, and flexibility and reverse flow capacity can be increased when it comes to existing interconnectivity.

(30) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Germany can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition in the most affected regions. In addition, Germany can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.

(31) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[25] is reflected in recommendation (1) below.

(32) 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,

[24] Energy system integration links the various energy carriers with each other and with the end-use sectors.

[25] Under Article 5(2) of Council Regulation (EC) No 1466/97.

including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Germany, this is reflected in particular in recommendations (1), (2), (3) below.

(33) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2022 National Reform Programme and the 2022 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3), (4) below. The recommendations (1), (2), (3) also contribute to the implementation of the Recommendations for the euro area, in particular the first and the fourth of the euro area recommendations. Fiscal policies referred to in recommendation (1) and policies referred to in recommendations (2), (3) and (4) help inter alia address imbalances linked to the current account surplus in as much as higher investment is concerned.

HEREBY RECOMMENDS that Germany take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Improve the tax mix for more inclusive and sustainable growth, in particular by improving tax incentives to increase hours worked. Safeguard the long-term sustainability of the pension system.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.

3. Remove investment obstacles and boost investment in very high-capacity digital communication networks.

4. Reduce overall reliance on fossil fuels and diversify their imports by improving energy efficiency, incentivising energy savings, diversifying energy supplies and routes, removing investment bottlenecks, further streamlining permitting procedures, boosting investment in and accelerating the deployment of electricity networks and renewable energy, and further advancing participation in energy-related cross-border cooperation.

Done at Brussels,

For the Council
The President