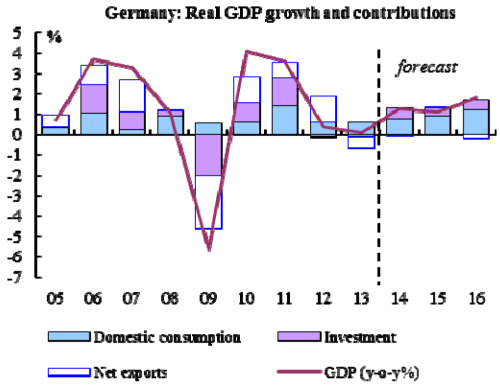
INVESTMENT IN GERMANY

What is the situation in Germany?

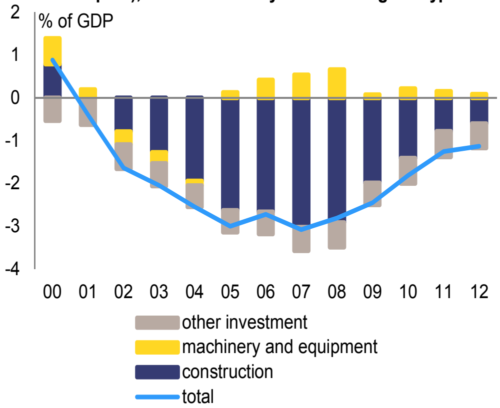


Source: European Commission 2014 Autumn Forecast

Since the beginning of the last decade, the rate of investment in Germany has been significantly lower than in the rest of the euro area, although the gap has narrowed in recent years (see second graph). Business investment in buildings and civil engineering facilities has been especially low. Investment by businesses has been weak in recent years. This is at odds with highly supportive conditions, such as healthy corporate balance sheets and very low interest rates. Public sector investment has been falling for a long time, resulting in a large investment gap compared to the euro area.

What is the main challenge?

Investment gap[1] vis-a-vis euro area (without Ireland and Spain), contributions by investment good type



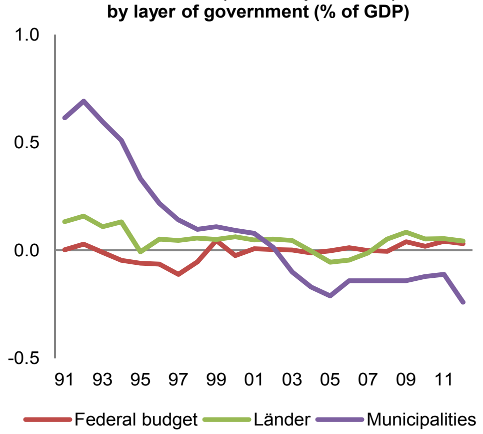
Source: Eurostat, Commission services calculations (see in-depth review 2014, Occasional Papers 174)

[1]Difference in percentage points between shares of investment in GDP in current prices

The main challenge is to bring forward measures that help strengthen domestic demand and the economy's growth potential. The capacity for the German economy to grow in the future, provide jobs and ensure rising living standards in an era of ageing population and global competition depends crucially on bolstering domestic sources of future growth, in particular via private and public investment. Persistently low investment by companies and by the government may hamper Germany's economic growth in the longer run. Steps to improve the business environment and education would support private investment. The existing room for manoeuvre in public finances and low interest rates favour public investment projects. Improvement to productivity in Germany's services sector could also contribute to higher efficiency, investment and growth.

Opportunities for investment

Investment (net of depreciation) by layer of government (% of GDP)



Source: Destatis, Commission services calculations (see in-depth review 2014, Occasional Papers 174)

There has been insufficient investment, for instance, to maintain the quality of the transport infrastructure in particular. Additional annual investment of ½ to 1 % of GDP for the public sector over the coming years appear necessary to maintain and modernise public infrastructure and to remove bottlenecks. The biggest investment needs are at municipal level. Adequate public infrastructure is needed to stimulate private investment. There is also room for removing bottlenecks, more efficient corporate taxation, less bureaucracy, better access to venture capital, better education and more efficient services.

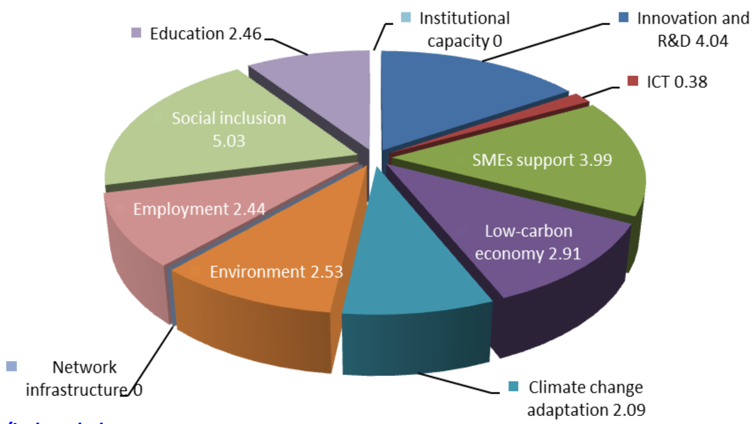
Reforms for investment

In the Country Specific Recommendations for Germany, the European Union recommended

Sound and growth-friendly fiscal policy	Better employability of workers
Public investment in education, research and infrastructure	Higher quantity and quality in childcare facilities and all-day schools
Improve efficiency of tax system, also to foster private investment	Improve cost effectiveness in healthcare and long-term care and ensure a sustainable pension system
Improve financial relations of the federation, *Länder* and municipalities, also to ensure adequate public investment	Stimulate competition in the service sector, including professional services
Expansion of gas and electricity networks	Address low public procurement under EU law
Reduce fiscal disincentives to work, inc. for second earners	Competition in railway and retail sector
Lower labour taxes and social security contributions, esp. for low wage earners	Consolidation in the *Landesbanken* sector

EU funding for investment

2014 - 2020
in billion EUR



Source: Partnership Agreement:
http://ec.europa.eu/contracts_grants/agreements/index_de.htm

Past or ongoing projects for investment

Electricity interconnections
Electricity interconnection.
Commissioning date: 2017
(**Austria, Germany**)

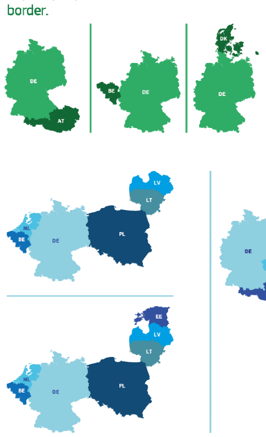
Electricity interconnection.
Commissioning date:
DE: First part - 2015,
complete -2017;
DK: complete -2017
(**Germany, Denmark**)

Electricity interconnection.
Commissioning date: 2016
(**Germany, The Netherlands**)

Gas interconnections
Reinforcement of the German network to reinforce interconnection capacities with Austria.
Commissioning date: 1.10.2017
(**Austria, Germany**)

Reverse flow interconnection on TEN P pipeline to Eynatten interconnection point (Germany). Commissioning date: 2017
(**Belgium, Germany**)

Capacity expansion on Danish-German border.

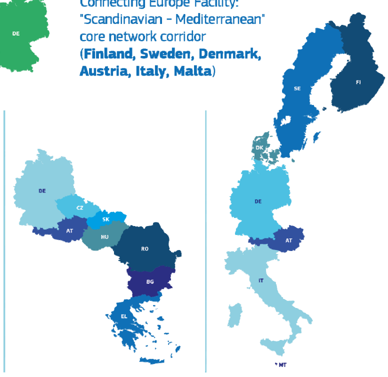


Transport interconnections
Freight corridor "North Sea – Baltic":
By November 2015
(**Germany, The Netherlands, Belgium, Poland, Latvia, Lithuania**)

Connecting Europe Facility:
"North Sea - Baltic" core network corridor:
(**Estonia, Latvia, Lithuania, Poland, Germany, The Netherlands, Belgium**)

Connecting Europe Facility:
"Orient – East Med" core network corridor:
(**Germany, Czech Republic, Austria, Slovakia, Hungary, Bulgaria, Romania, Greece**)

Connecting Europe Facility:
"Scandinavian - Mediterranean" core network corridor
(**Finland, Sweden, Denmark, Austria, Italy, Malta**)



Technological interconnections
Targeting the set-up of new manufacturing capacities of electronic chips in Europe: under preparation for a submission to the Commission in 2015.
(**France, Germany, UK, The Netherlands, Belgium, Austria, Italy, Finland, Ireland**)