

**EXECUTIVE
BOARD
MEETING**

SM/16/149
Correction 2

June 24, 2016

To: Members of the Executive Board
From: The Secretary
Subject: **Germany—Staff Report for the 2016 Article IV Consultation**

Board Action: The attached correction to SM/16/149, Cor. 1 (6/23/16) has been provided by the staff:

Evident Ambiguity

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Questions: Ms. Detragiache, EUR (ext. 36376)
Mr. Vandebussche, EUR (ext. 36676)
Ms. Pereira, EUR (ext. 39452)
Mr. Natal, EUR (ext. 35983)
Mr. Xie, EUR (ext. 38366)

possible and design more flexible forms of vocational training, with language training and a stronger on-the-job component relative to standard formal schooling, should be given priority. While all these initiatives may require some additional fiscal outlays in the short-term, they would have a potentially large payoff down the road through better employment prospects and less reliance on social welfare. They may also help successfully absorb future non-refugee immigrants.

Incentivizing more active female labor force participation

26. **More active participation of women in the labor market would not only increase labor supply but also enhance productivity.**¹⁰ While female labor force participation is relatively high in Germany, close to half of employed women work only part time. Thus, women work on average 30.5 hours per week, 9 hours less than men do. Limiting constraints to full-time work by women would boost labor supply. It would also strengthen incentives for on-the-job training provision and make firms more likely to have women in senior management positions, which can improve corporate profitability. To this end, the supply of full time schooling services should be expanded further. Distortions that increase the marginal tax burden for secondary earners should also be reduced, specifically by moving towards a system in which health insurance contributions depend on the number of household members covered, with targeted support for poorer households. Greater provision of childcare services and after-school programs would have the further benefit of facilitating the social integration of immigrant children. Also in this case, fiscal resources deployed now—about ¼ percent of GDP if, for example, Germany were to raise spending in this area to the OECD average—would have potentially important medium-term payoffs through higher potential GDP.

Extending working lives

27. **Germany's unfavorable demographic trends are weighing on the outlook.** A recent government report¹¹ estimates that age-related government spending is set to rise between 2 and 4½ percentage points of GDP by 2040 under current policies. Without further reforms, already-high social security contributions would have to rise further or already-declining replacement rates would have to fall further. Past reforms will push the statutory retirement age from the current 65 years to 67 years by 2030 (when pension outlays are expected to accelerate), but no further increases are foreseen, and ~~workers with more than 45 contributory years~~ some workers can still retire ~~at the age of 63 about two years earlier than other workers~~. Although participation rates in the 55–64 age group is high in Germany compared to other OECD countries, the opposite is true for those older than 64. While conditions to extend employment contracts beyond the statutory retirement age have been relaxed, there is a loss of pension wealth for those who remain employed.

¹⁰ See Christiansen and others (2016), "Unlocking Female Employment Potential in Europe: Drivers and Benefits", IMF Departmental Paper, and "Women in the Labor Market and the Demographic Challenge", Selected Issues Paper for the 2015 Article IV Consultation.

¹¹ "Fourth Report on the Sustainability of Public Finances" (2016), German Federal Ministry of Finance.