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German Stability Programme

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German Stability Programme

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Foreword

In accordance with the provisions of the Stability and Growth Pact - Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and coordination of economic policies, and as amended by Council Regulation No 1055/2005 of 27 June 2005 - the Member States which have adopted the euro are obliged to submit updated stability programmes each year to the ECOFIN Council. The Member States which have not adopted the common currency submit corresponding convergence programmes.

This latest version of the German Stability Programme was approved by the German cabinet on 29 November 2006.

In both format and content, the Programme conforms to the guidelines set out in the Regulations on the format and content of the stability and convergence programmes (“code of conduct”) of September 2005.

The Federal Ministry of Finance also publishes the updated Stability Programme on the internet at:

www.bundesfinanzministerium.de

1 Summary

- The central objective of German fiscal policy is to ensure the long-term sustainability of public finances. Structural consolidation of public budgets and social security schemes as well as improved conditions for growth and employment are equally indispensable if this goal is to be reached.
- In addition to quantitative consolidation, fiscal policy measures must seek to improve the *quality* of public finances. High, long-term growth can only be achieved when the appropriate budgetary structures are in place to allow public spending and revenue to be designed with a view to bolstering economic growth and ensuring macroeconomic efficiency on a sustainable basis.
- The German government's policy of consolidation balances measures on the expenditure and revenue sides. In order to ensure that the necessary structural consolidation can be undertaken while at the same time enabling investment spending in the future, measures have to be introduced to help stabilise the revenue side of public budgets.
- The federal government expects real GDP growth in 2006 to amount to around 2.3% (2.9% in nominal terms). In 2007, real growth is expected to be roughly 1.4% (2.6% in nominal terms). Real GDP growth for 2008 and 2009 is expected to average 1¾%.
- The general government deficit will have been brought down to 2.1% of GDP, and thus below the Maastricht reference value, by the end of 2006. By focusing on a consolidation course which did not put undue strain on the economic upswing, the federal government's fiscal and economic policy has played an important role in reaching these targets in a growth-friendly manner.
- The general government deficit ratio is expected to decline even further in 2007 to 1½%. Viewed cumulatively over 2006 and 2007, the structural deficit will be reduced by more than 1 percentage point.

2 Fiscal policy in Germany: The quality and sustainability of public finances

One of the central tenets of fiscal policy in Germany is the sustainable consolidation of public budgets. It is imperative that fiscal policy is both reliable and credible in order to secure favourable conditions for growth on a lasting basis. At the same time, the success of any budget consolidation measures is heavily reliant upon adequate rates of growth and higher employment – as borne out by developments over the past few years in Germany. Accordingly, the federal government’s fiscal and economic policy is designed with both aspects in mind, i.e. the structural consolidation of public budgets and social security schemes and at the same time an improvement in the conditions for growth and employment. Each of these components exerts a decisive influence on the respective other and both have to be realised jointly if public finances are to be put on a sustainable footing over the long-term.

2.1 The quality of public finances¹

The consolidation of public budgets should be based on more than just quantitative criteria. Fiscal policy measures should also be directed at improving the *quality* of public finances. High, long-term growth can be achieved only when the budgetary structures are such that public spending and public revenue are designed to bolster growth and ensure macroeconomic efficiency on a sustainable basis.

This insight should not be ignored when conceiving measures for structural budgetary consolidation. In addition to the undeniable need to consolidate on the expenditure side by realising existing savings and efficiency potential, steps must be taken – as is the case with the government's growth-promoting *Impulsprogramm* – to transform government spending into investment in the future.

In addition to measures on the expenditure side, the revenue side is an important factor when it comes to ensuring the quality of public finances. Here, as with spending, government revenue must be evaluated also with respect to its effect on growth and employment. In this regard, the federal government's continued course of dismantling tax subsidies is just as important as the cost-effective design of taxation via further tax simplification in increasing the revenue-side efficiency of public budgets. The quality of public finances can also be improved over the medium-to-long-term by adjusting the relative weights of direct and indirect taxes. An increase in the rates of indirect taxation which helps to reduce the burden imposed by direct taxes and fiscal charges may also enhance economic productivity incentives, thereby leading to an improvement in the underlying conditions for jobs and growth.

¹ The measures outlined in 2.1 are based on classifications used in financial statistics.

Any measures to add a more future-oriented dimension to budgetary structures will be heavily influenced by the institutional framework and national budget rules. In its conclusions of 10 October 2006, the ECOFIN Council once again underlined the importance of national fiscal rules, especially with regard to consolidating budgets and avoiding pro-cyclical fiscal policies. In light of this, and given the past developments of public budgets, a critical review of Germany's fiscal rules must also be undertaken.

Improving the framework conditions for jobs and growth

Sufficient rates of growth and employment are essential if public finances are to be successfully consolidated. With this in mind, the federal government has earmarked in its *Impulsprogramm* roughly €25 billion in addition for measures designed to strengthen economic growth and to improve the framework conditions for investment and employment on a durable basis.

One of the federal government's goals is to reduce non-wage labour costs, thereby doing away with a key obstacle hindering the creation of jobs paying into the social security funds. Against this background, the rate of contribution to unemployment insurance is to be reduced from the current 6.5% to 4.2% from January 1, 2007. This is to be financed by the proceeds of one full percentage point of VAT and by efficiency and productivity gains of the German Federal Employment Agency (*Bundesagentur für Arbeit*).

Corporate taxation is to be reformed in 2008 with a view to improving Germany's position in the global competition for entrepreneurship and capital. To this end, specific guidelines for this reform were agreed on 2 November 2006:

- The tax burden on companies that already tax their profits in Germany is to be reduced. To this end, the current 38.7% nominal tax burden on limited companies is to be brought down to below 30%.
- Partnerships will be allowed to retain profits under favourable tax conditions. Here, the tax burden will reflect the nominal rate on limited companies so that the legal form adopted by the company will be largely irrelevant.
- There is to be a containment of tax evasion opportunities, which enable companies to transfer abroad their earnings generated in Germany. Section 8a of Germany's Corporation Tax Law, which was meant to restrict tax evasion in the case of shareholder debt financing, is to be replaced by a limit on the amount of paid interest which can be deducted from earnings, thus reducing the overall tax bill (so-called *Zinsschranke*). This is intended to reduce the temptation for transferring profits made by German entities to foreign parent companies by way of licence fees and inflated debt financing.
- The design of the trade tax will remain so as to safeguard the investment capacities of local authorities. It is to be reformed, however, with the introduction of further

elements to simplify taxation and restrict tax evasion opportunities. The changes will also include the abolishment of a provision that allows 50% of interest on long-term debt to be tax-deductible. This provision will be replaced by a 25% inclusion limit on all forms of interest and on the financing portions of rents, leasing instalments and royalties. A tax-free allowance of €100,000 is also intended to ease the tax burden, especially that on SME's. These changes will make the tax treatment of debt financing less attractive and provide added incentives to use equity capital – an important factor in increasing the generally low equity capital ratio of German companies.

The reform of corporate taxation is set to improve the investment environment on a long-term basis. At the same time, it represents an important contribution towards securing Germany's tax base into the future. The planned introduction on 1 January 2009 of a final withholding tax on capital income is intended to make Germany a more attractive place for capital. The tax rate is due to be set at 25%.

While taking into account further need for consolidation, the measures described above – namely those to reduce the burden on limited companies and on partnerships, as well as the final withholding tax on capital income – will be designed so as not to put any undue burden on the budget. They represent roughly €30 billion of overall relief per year, €25 billion of which is to be counter-financed by broadening the tax base. In total, the full impact of the reform measures will result in tax shortfalls of roughly €5 billion.

In addition to the reform of corporate taxation, changes to inheritance rules are planned from 1 January 2007 to make it easier to pass on company ownership from one generation to the next.

Continuing with the structural consolidation of public budgets

Given the substantial structural gap in Germany's public budgets between revenue and expenditure, a comprehensive package of measures is needed with a view to consolidating public finances on a sustainable basis. The consolidation strategy devised by the federal government takes a balanced approach, improving both the expenditure and the revenue side.

In this legislative period, consolidation on the expenditure side will be achieved by measures to raise efficiency and effectiveness in implementing the basic income for jobseekers, by the temporary reduction of transfers to the statutory health insurance schemes and by cutting state sector costs and individual subsidies.

However, there is little if any leeway left for further savings on the expenditure side to help reach the necessary structural consolidation targets in such a short space of time. This is all the more pertinent when one considers that the consolidation targets on the expenditure side are to be realised without reducing investment in those capital assets

and human resources which are indispensable in bolstering the potential for macroeconomic growth.

Therefore, the only way to close the structural gap in the public budgets, and to ensure that both the constitutional obligations set out in Article 115 of Germany's Basic Law and the rules of the Maastricht Treaty are adhered to, is for additional consolidation on the revenue side. While it is true that tax revenue is currently going through a positive phase, these developments are to a great extent cyclical and do not contribute to change the need for structural consolidation of public finances.

At the forefront of revenue-side consolidation efforts is the dismantling of tax privileges and special rules. The planned increase on 1 January 2007 of the standard rates of VAT and insurance tax by 3 percentage points is necessary to help redress the structural shortfall in public budgets. The reduced rate of VAT will not be affected. This increase will see Germany occupy a mid-table position on European comparison of standard VAT rates.

The increase in VAT must be seen within the overall context of reduced contribution rates to unemployment insurance and the huge progress made over recent years in reducing the burden from income and corporation tax. Shifting the burden from direct taxation and fiscal charges to indirect taxation is part of a strategic revenue structure which is more conducive to growth and more competitive. This remains the case even when the measures to broaden the tax base and the increase in the top rate of taxation for very-high income earners from 1 January 2007 are taken into account.

Maastricht deficit criterion adhered to already in 2006, full consolidation package launched with the 2007 federal budget

Following the federal government's deliberate decision, spurred by the weak economic climate at the end of 2005, not to follow an overly-restrictive line in its budget for 2006, the full effects of the consolidation package are set unfold in the 2007 budget. The federal government is confident that the economic recovery in the coming year will be strong enough to withstand the effects of the additional consolidation measures.

In addition to the increased rates of VAT and insurance tax, the 2007 federal budget provides for cuts in tax subsidies and special tax rules. Overall, these cuts will contribute more towards consolidation than the tax rate increases.

The structural consolidation measures will mean that the ceiling set out in Article 115 of the German Basic Law will once again be adhered to in 2007. The Maastricht Treaty's reference value for general government deficit will be well undercut already in 2006. It should be noted, however, that the positive budgetary developments to date have been greatly influenced by cyclical factors. Against this background, the 2007 federal budget

will represent a decisive step towards the sustainable, structural consolidation of Germany's public finances.

Reform of federalism

Germany's federal structure has a strong influence on the shape of its fiscal and economic policy framework. The first step of the reform of federalism, as set out in the coalition agreement, came into force in September 2006. Hitherto inefficient and interlinked structures of regional authority have been dismantled and legislative powers have been restructured.

The federal government and the *Länder* have agreed to a second reform package with a view to adapting their financial interrelations, reflecting the changed circumstances within and outside Germany, particularly as regards growth and employment policy. The German Constitutional Court's decision of 19 October 2006 with regard to Berlin's budget crisis must also form part of the discourse on the second reform phase. This decision underlines the necessity for developing institutional framework conditions that safeguard budgetary discipline at the regional level and that allow for early measures to be taken to counter the emergence of budgetary crises.

2.2 The long-term sustainability of public finances

The demographic make-up of Germany is expected to change dramatically over the coming years as a result of lower birth rates and higher life expectancy. This is the unanimous view presented in all long-term forecasts, whether national or international. In fact, in its latest population forecast, Germany's Federal Statistical Office concludes that the looming changes in the age structure will place an even greater burden on the younger generations than previously assumed.² Hence, without change to legislation, those elements of the public budgets which are particularly sensitive to demographic developments can be expected to face increasingly tight spending restraints.

One of the federal government's main goals is to secure the sustainability of public budgets on a long-term basis. The challenges of demographic change can only be mastered by reducing government debt, improving the underlying conditions for growth and employment and implementing further reform of the social security schemes. Those reforms already implemented have proven successful and are testament to the merit of the federal government's reform course. The social security systems must now be made more efficient, in particular by creating better incentive schemes, greater competition and more efficient administrative structures. It is equally important to lastingly improve the revenue base of the social security systems, especially by increasing the number of jobs paying into the system.

The Federal Ministry of Finance will continue to provide expert, up-to-date information on the implications of demographic change in its series of reports on the sustainability of Germany's public finances.

Labour market and employment policy

Germany will continue along its course of labour market reform already embarked upon. The sheer scope and complexity involved means that the reforms already introduced over the last few years need to be improved. The "Acts for modern services in the labour market" are currently being assessed by experts, in particular with respect to the effectiveness of active labour market policies. Based on a final report to be submitted to the German Bundestag, the federal government intends in 2007 to examine ways as to increase the effectiveness and efficiency of its labour market policies. Some adjustments have already been made, such as those which came into effect on 1 August 2006 with the entry into force of the Act to further develop the basic income for jobseekers (*Gesetz zur Fortentwicklung der Grundsicherung für Arbeitssuchende, or SGB II Fortentwicklungsgesetz*). This law helps to fight benefit abuse and to simplify administrative practices.

² See the *11. koordinierte Bevölkerungsvorausberechnung des Statistischen Bundesamtes*, published by the German Federal Statistical Office in November 2006.

On 13 September 2006, the federal cabinet agreed on the basic content of a bundle of measures designed to improve the participation of older workers in the work force and reintegrate persons older than 50 years of age into the labour market (*Initiative 50plus*). One of objectives involves increased vocational training to help bring down the number of people aged 55 or over who withdraw from active employment. The recruitment of people aged 52 or over is to be made easier by improving the rules on fixed-term contracts.

In addition, the federal government wants to enhance the labour market perspectives for groups with special problems. For example, in line with the coalition agreement, it has set up a working group charged with reviewing the options for improving job opportunities for low-skilled people. The federal cabinet hopes to start discussing the key issues for a reform in December 2006.

Structural reform of the social security systems

The first steps towards the financial stabilisation of statutory pension insurance in Germany have already been taken. During this government's term, legislation will be introduced to provide for a gradual increase in the standard retirement age from 65 to 67, beginning in 2012. In addition, attenuations in pension adjustments which have not been realised in the past are to be implemented and the trend of ever-rising transfers from the federal budget to the statutory pension insurance schemes will be stopped, as set out in the coalition agreement. Statutory pension insurance will remain the most important pillar of old-age provisions. Nevertheless, it needs to be backed-up by pillars of occupational and private old-age insurance provisions. The federal government has therefore already embarked on a concerted campaign to promote occupational and private retirement pension provisions. These promotional measures have been instrumental in heightening the acceptance of additional old-age arrangements. It is planned to assess in 2007 the degree of acceptance of occupational and private arrangements that has been achieved. A decision will then be made on the basis of these findings as to further measures needed.

On 25 October 2006, the federal cabinet agreed on a fundamental reform of health care in Germany. The reforms are due to come gradually into effect, starting on 1 April 2007. In essence:

- A health fund is to be set up with the aim to increase competition between the health insurers and to improve the transparency of the funding system for the statutory health insurance schemes. The federal government will set the uniform rate of contribution to be applied in future. The health insurers will receive from the fund a standard amount per policyholder, in addition to extra amounts to compensate for varying structures with regard to age, gender and morbidity. The rate of cover from the fund for the insurers' outlay will start at 100%, but will later drop to 95%.

Where the transfers for the funds are not enough, the health insurers must improve their cost management systems or make up the shortfall by charging their policyholders an additional contribution. There will be a cap on the amount of additional contribution that insurers can charge, however.

- Starting in 2007, gradually increasing transfers from the federal budget will help to fund those aspects of statutory health insurance which affect society as a whole, thus putting financing for this sector on a more sustainable, job-friendly footing.
- In addition, health care is to be made more efficient and transparent by introducing greater policyholder choice, more freedom for the individual insurance companies to enter contracts, a new system of doctor remuneration, cost-benefit analysis of new medicaments, a greater dovetailing of the outpatient and inpatient sectors, and a streamlined structure in the organisation of health industry federations and associations.
- In future, it will be easier to transfer provisions made for retirement age so that more competition can be expected in the private health insurance sector and policyholders can exercise more discretion and flexibility in choosing their insurance company. In addition, the products on offer by private insurers must include a basic policy which mirrors the cover provided under statutory health insurance, obliges the insurer to enter into contract and does not contain risk premiums or exclude certain benefits.
- The reorganisation of private and statutory health care will allow members of society who are without insurance cover access to that scheme (private or statutory) in which they were last insured or in which they now belong as a result of the new rules.

The federal government will present a concept on the future of statutory long-term care in 2007.

Updated long-term model calculations at Community level

Studies carried out by the EU's Economic Policy Committee and the European Commission on the fiscal implications of aging on public expenditure were concluded in autumn 2006. Every member state contributed to the surveys. The findings confirm that the positive long-term trends, i.e. reduced transfers to the unemployed or lower outlays on education, are not enough to compensate for the expected long-term strain on public spending, i.e. old-age provisions and health care. Those scenarios developed by the Community which best reflect the situation in Germany are represented below (Table 1). Real constant contributions have been assumed in calculating the costs of long-term care.

Because of their harmonised approach, the forecasts at the European level are more readily comparable than individual national estimates. However, they cannot fully reflect the institutional idiosyncrasies of the respective individual member state. It is assumed that the structural unemployment rate converges towards the current EU15 average.

Changes in spending on retirement insurance reflect the reform success in Germany. According to current Community forecasts, the rise in spending as a result of demographic change is expected to be less than 2 percentage points up to 2050. In 2001, it was expected to reach as much as 6 percentage points. Germany now occupies a mid-table position in European comparison.

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Table 1: Government expenditure from a long-term perspective in Germany
(based on the updated long-term model-calculations at Community level)

	2004	2010	2020	2030	2040	2050
Expenditures as % of GDP						
Expenditure on old-age pensions ¹⁾	11,4	10,5	11,0	12,3	12,8	13,1
<i>p.m.: Contribution revenue</i> ²⁾	7,7	7,3	7,3	8,3	8,7	8,9
Expenditure on health care ³⁾	7,0	7,3	7,7	8,0	8,2	8,3
Expenditure on education ⁴⁾	4,0	3,6	3,3	3,3	3,3	3,3
Unemployment insurance ⁵⁾	1,3	1,1	0,9	0,9	0,9	0,9
Annahmen						
Productivity gain (p.a.)	1,1	0,8	1,5	1,8	1,7	1,7
GDP growth (p.a.)	1,5	1,8	1,8	1,0	1,1	1,2
Labour force participation	73,0	77,4	79,1	78,6	79,5	79,0
Men (15 to 64)	79,8	83,3	85,1	84,5	85,2	85,0
Women (15 bis 64)	66,0	71,3	72,9	72,5	73,6	72,9
Unemployment rate	9,5	8,5	7,0	7,0	7,0	7,0
Elderly dependency ration ⁶⁾	26,8	30,7	34,2	44,0	51,0	51,7
Total population (m.)	82,5	83,1	83,5	82,7	80,7	77,7
Population 65+ (m.)	14,9	16,9	18,5	22,0	23,9	23,3

Results of model calculations by the Economic Policy Committee of the European Union and the European Commission (Aging Report). Variations due to rounding. Figures relating to productivity gain and GDP growth are based on the respective preceding 10-year period, for 2010 on the period 2004 to 2010.

- 1) Statutory pension insurance and lifetime civil servant pensions
- 2) Statutory pension insurance
- 3) Statutory health insurance and statutory long-term care insurance (acute health care and long-term care)
- 4) Excluding education expenditure by the *Bundesanstalt für Arbeit*.
- 5) Substitute wage payments
- 6) Population 65+ relative to population 15-64

2.3 German fiscal policy in the European context

The legal basis for the surveillance of budgetary positions and the decisions by the ECOFIN Council within the context of the current deficit procedure is provided by the relevant provisions of the Treaty of Maastricht, and by the Stability and Growth Pact revised in spring 2005. On 14 March 2006, the ECOFIN Council stepped up deficit proceedings against Germany and served a formal notice of default, demanding that the excessive deficit be overcome by 2007 at the latest. In addition, Germany was called upon to effect a cumulative reduction in its structural deficit by a total of 1 percent of GDP in 2006 and 2007. Based on an implementation report submitted on 5 July 2006 by the German government, the European Commission recognised on 19 July 2006 that Germany has put in place the necessary measures to reduce the excessive deficit within the given deadline. On 10 October 2006, the ECOFIN Council backed the European Commission's decision to drop deficit proceedings against Germany.

Germany will be able to reduce its general government debt already in 2006 to a level well below the ceiling provided for by the Maastricht Treaty. By focusing on a consolidation course which did not put undue strain on the economic upswing, the federal government's fiscal and economic policy has played an important role in reaching this target. The reform of the Stability and Growth Pact has certainly proven its merit, in particular with respect to the fact that procedural deadlines for reducing an excessive deficit can now be dealt with more flexibility and in a manner which takes into account the economic situation in the individual member state.

The German government will continue to remain resolutely on its course of sustainable structural consolidation and qualitative improvement of its public finances. The balanced budget objective over the medium-term remains valid. For this, further reforms are needed on the labour market and in the social security schemes. In its 2006 Implementation and Progress Report on the National Reform Programme 2005-2008, the federal government reported on important reform measures which have been initiated or passed into law since the National Reform Programme was presented. At the same time, these measures are also in line with the fiscal policy recommendations issued within the context of the *Broad Economic Policy Guidelines* for 2005 to 2008.

3 Macroeconomic situation and outlook until 2010

3.1 *Assumptions underlying the growth forecast for 2007 and over the medium-term*

Forecasts for the short and medium-term (2006 to 2010) are based on the following assumptions:

- The **world economy** will experience in 2006 somewhat stronger growth than last year (price-adjusted growth of +5 to 5 ½ %), easing up only slightly in 2007 (+4 to 4 ½ %). Ranging from 8 ½ to 9 ½ %, world trade is expected to expand at an even greater rate in 2006– following 7 ½ % in 2005 – and will remain dynamic in 2007, despite a slight slowdown (+7 to 7 ½ %). Over the medium-term to 2010, a slight weakening of global GDP growth and world trade is expected. Germany, however, will be able to defend its global market share because of its high competitiveness.
- The technical assumptions with regard to **exchange rates, oil prices and interest rates** are based on the respective averages over the final weeks before the forecast was drawn up. This implies, on average for 2007, an exchange rate of 1.26 US dollars to the euro, a price for Brent oil of 60 US dollars per barrel, and unchanged ECB key interest rates. A further technical assumption is that the real external value of the euro will remain largely stable at its current level for the duration of the forecast period and that the ECB will ensure price level stability with relatively favourable rates of interest. Few if any problems are expected with regard to the supply of energy and resources. However, prices are expected to come under pressure as a result of continued high demand.
- As was the case last year, **wage developments** remain very moderate in 2006, with collectively agreed wages and salaries rising in the overall economy by just under 1½ %. A similar rise of 1 ½% is expected for 2007. Given the continued negative wage drift, effective wages are expected to have risen slightly this year by a little under ½ %. This moderate trend is expected to continue into next year, with growth likely to be just under 1%. This means a further fall in unit labour costs (2006: -1½ %, 2007: -¼ %). Real growth in wages is also expected to be productivity-based over the medium-term.
- The economic effects expected as a result of the **agreed fiscal and economic policy measures** to consolidate public finances and from the accompanying growth-promoting programme have been included in the forecast.

3.2 Macroeconomic situation in Germany in 2006

There was a clear improvement in the economic recovery in Germany over the course of the year. Real GDP growth (adjusted for working day variations and season) in the third quarter was 0.6%, following the 1.1% rise in the second quarter. Particularly welcome this year is that momentum from foreign trade has finally spilled over into domestic demand. Domestic impetus was particularly noticeable in the sharp rise in gross fixed-capital formation. Companies started to invest heavily again, and the long-running crisis in the construction industry appears to be coming to an end. It must be mentioned here that special factors such as the expiry last year of the owner-occupied homes premium for new buyers and the effect of purchases brought forward to circumvent the planned VAT rise in 2007 have provided additional momentum. Nevertheless, construction activity appears also to have been driven by forces emanating purely from the economy. Alone the indicators for consumptive spending by private households fail to signal a major recovery. However, advance purchases are expected to lead to a sharp rise in the fourth quarter. Additionally, the situation on the labour market has noticeably brightened this year. From the beginning of the year, the number of jobs paying social security contributions has been steadily rising, for the first time since the last boom in 2000. This development is also reflected in the decline in registered unemployment. Despite the increased price of crude oil - the effects of which were still being sharply felt in summer – the upturn has unfolded in an environment of price level developments which remain conducive to stability.

3.3 Short and medium-term outlook for the overall economy

In its autumn forecast, the German government expects an increase **this year** in gross domestic product of 2.3% in real terms. Following slight net job losses last year, gainful employment rose this year by roughly ½% and some 325,000 persons less were registered as unemployed.

The expectation **next year** is that the overall economic momentum will probably slow down temporarily. The weakening in economic activity is however likely to take place in the first half year as a result of the budget consolidation measures before it then picks up again over the latter half of the year. Real economic growth is expected to average roughly 1.4% next year. The increase in the rate of VAT will primarily affect private consumption and construction investment at the beginning of 2007. In contrast, investment in machinery and equipment shall still be able to enjoy the favourable depreciation rules until the end of the year. Foreign trade is expected to expand next year as global economic momentum experiences a slight slowdown only. As the VAT rise will affect imports rather than exports, the impetus provided by the external balance will once again gain in importance. The overall expectation, therefore, is that the forces for growth which are particularly strong this year – even where underpinned by special factors – will be also largely present next year. The labour market is also expected to be

affected by the temporary slowdown in economic activity. However, gainful employment is expected by and large to exhibit the same growth next year as in 2006, partly due to the statistical carry-over. Thus, the decline in registered unemployment can be expected to continue, albeit to a slightly lesser extent than in this year.

For the subsequent years (2008 to 2010), GDP is expected to grow by roughly $1\frac{3}{4}$ % per annum. The most important factors for the macroeconomic forecasts over the medium-term are the considerations relating to the supply side of economic development. The enduring phase of weak economic activity which has been accompanied by a marked reluctance to invest has impaired macroeconomic productive capacities. Increased investment in capital assets and human resources will probably allow annual potential growth to approach $1\frac{1}{2}$ % towards the end of the medium-term. A potential rate of growth ranging from $1\frac{1}{2}$ to 2 % can be expected once again in the long-run only.

Over the **entire forecast period**, impetus for growth will not come solely from exports; domestic demand is also expected to make an ever greater contribution to economic growth. The upward trend in investor activity expected over the medium-term will probably be accompanied by increased consumer demand from private households, and each of these developments will reinforce the other. For, first of all, more investment means more employment, and hence greater demand from more affluent private households. And, secondly, increased private spending increases turnover for companies, which in turn drives investment activity. These mutually-reinforcing processes would steady domestic demand in Germany on a sustainable basis, while government consumption would increase only slightly over the entire forecast period thanks to the consolidation course being pursued. Real GDP growth of $1\frac{3}{4}$ % p.a. over the entire medium-term period and an average annual inflation rate measured by GDP of roughly 1% would allow GDP to rise on average by $2\frac{1}{2}$ % p.a. in current prices. As a consequence of the implemented reforms, the number of those gainfully employed should increase (increase in number of women and older workers employed) while the level of natural unemployment falls, i.e. the employed persons potential should be better exploited as a result of the structural reforms. Gainful employment should rise by roughly $\frac{1}{2}$ % p.a., with the reduction in unemployment lagging somewhat behind.

The **risks** to this forecast remain unchanged global imbalances as well as possible negative effects of sharply falling house prices in other countries and, in general, a stronger slowdown in global economic momentum than is currently expected. Moreover, although it has recently fallen, the price of crude oil could once again experience sharp rises as a result of geopolitical risks or bottlenecks due to bad weather conditions. In terms of the domestic economy, continued weak private consumption represents a further risk. Although the downside risk appears to be slightly greater, there is also the **chance** that the global economy will develop more favourably than predicted, oil will be cheaper and the government's economic policy measures will raise confidence, so that the strain on the domestic economy will be less next year than assumed here.

Table 2: Forecast of macroeconomic development for 2006 to 2010

	ESA Code	2005	2006	2007	2008/10
GDP price adjusted, chain index; annual change in %	B1g	0,9	2,3	1,4	1 ¾
GDP at current market prices; annual change in %	B1g	1,5	2,9	2,6	2 ½
GDP deflator p.a. in %		0,6	0,5	1,2	1
Gainfully employed persons (domestic) p.a. in %		-0,1	0,6	0,6	½
Labour productivity² p.a. in %		1,0	1,7	0,8	1 ¼
Use of GDP price-adjusted, chain index: Change p.a.					
1. Private consumption spending³	P3	0,1	0,8	0,3	1
2. Govt. final consumption	P3	0,6	1,2	0,2	½
3. Gross fixed capital formation	P51	0,8	5,2	3,4	3 ½
4. Changes in inventories (GDP growth contribution)⁴	P52 + P53	0,2	0,3	-0,3	0
5. Exports	P6	6,9	10,0	6,7	4
6. Imports	P7	6,5	10,2	5,5	4
GDP growth contribution⁴					
7. Domestic demand (w/o stocks)		0,3	1,6	0,9	1 ½
8. Changes in inventories	P52 + P53	0,2	0,3	-0,3	0
9. External balance of goods and services	B11	0,4	0,5	0,8	¼

(1) 2005: Provisional result of the Federal Statistical Office from August 2006; 2006 and 2007: Findings of the Interdepartmental Macroeconomic Forecasting Group from October 2006; 2008 to 2010: medium-term forecast from April 2006 adjusted to the findings of the Interdepartmental Macroeconomic Forecasting Group from October 2006.

(2) GDP per person in gainful employment.

(3) Including private non-profit organisations.

(4) Contribution to GDP growth rate.

4 Development of the public budgets

4.1 Development of net borrowing/lending

Fiscal balance 2007: - 1 ½ % of GDP

Net government borrowing will fall in this year to 2.1% of GDP. This figure is expected to further decline in 2007 to roughly 1½% of GDP. Assuming the conditions forecast here prevail, the general government deficit ratio will have reached roughly ½ % of GDP by the end of the period forecast.

Table 3: Development of the general fiscal balance

	2005	2006	2007	2008	2009	2010
Fiscal balance	- in % des BIP -					
November 2006 forecast	-3,2	-2,1	-1 ½	-1 ½	-1	- ½
Februar 2006 forecast	-3,3	-3,3	-2 ½	-2	-1 ½	

The fiscal balances have been rounded to within a half percentage point.

Over the course of the period covered by this Programme, the government's net fiscal balance can expect to be influenced by the following factors:

- This year, that is in **2006**, net government lending and borrowing will be largely determined by economic trends and by the momentum from the profit-dependent taxes. The fiscal policy measures have a mainly balanced effect. Consolidation measures, some of which were already implemented during the previous legislative period, are leading to a continuation of the consolidation policy on the expenditure side. This is supported by measures currently being decided to stimulate economic activity and improve growth prospects. In addition, taxes on profit are experiencing strong growth which cannot be explained solely by cyclical factors. This growth is helping effect a large reduction in the general government deficit. As a result, the deficit ratio will fall to 2.1% of GDP by the end of the year.
- From **2007**, the consolidation measures described in Chapter 2 will bring the general government deficit down to 1½% of GDP. The federal government's report on the implementation of measures to restore order to Germany's public finances gives a detailed view of the scope and effect of the consolidation measures already implemented³. The measures have now been incorporated into the 2007 federal

³ See, in German, *Bericht zur Umsetzung von Maßnahmen für den zur Haushaltssanierung erforderlichen Abbau des übermäßigen Defizits nach Artikel 2 Abs. 1 der Entscheidung des ECOFIN-Rates vom 14. März 2006 über die Inverzugsetzung Deutschlands gemäß Art. 104 (9) EG Vertrag* published on 5 July 2006. To download, please visit:

budget and into the current budgets of the *Länder*. These measures will lead to gross consolidation in 2007 of roughly 1¼% of GDP compared to a base line not including measures (excluding indirect growth effects). An increase of roughly 0.5 points in the contribution to statutory health insurance has been included in addition to the measures described in the implementation report.

- The federal government is planning a reform of corporate taxation, to begin in **2008**. The reform's objective is a marked improvement in Germany's international competitiveness as a business location. To this end, one of the measures planned is to noticeably reduce the tax rates for corporations. The course of structural budget consolidation will be extended to take account of reductions in revenue as a result of the corporate tax reform, since the benefits of the reform which emanate from the improvement in the fiscal conditions will not be felt until the medium term. Nevertheless, a continued policy of restrictive spending will prevent the reform from leading to an increase in the deficit ratio. The government deficit in 2008 will correspond to that of the previous year.
- Thereafter, in **2009 and 2010**, tax revenue will return to the original growth path. The consolidation effects of the package of measures will be more noticeable, as expansive measures will be coming to an end. Maintaining an unchanged spending policy, the deficit ratio can then be reduced to roughly ½% of GDP by the end of the forecast period.

Development at the various levels of government

Due to an improved revenue base, the **Federation** will be able in 2007 to stay below the constitutional ceiling for debt financing. Net borrowing will total €19½ billion in 2007. Apart from implementation of the legislative measures, the main feature of the 2007 federal budget will be a continuation of the restrictive policy in the field of government final consumption. Taking an overall view of all the measures involved, and by way of the savings made over the course of the regular preparation of the budget, the Federation will adopt a restrictive expenditure policy in its 2007 budget. Current-account expenditure, which is largely consumption, will rise by a mere 0.6 % in 2007 – after adjustment for the additional payments to the *Bundesagentur für Arbeit*. The same growth rate will apply to the Federation's total expenditure according to the National Accounts definition. As defined under National Accounts terminology, net borrowing by the federation will fall from 2.1% of GDP in 2005 to roughly 1½% of GDP in 2007. The Maastricht deficit of the Federation will continue to fall, reaching below -1% of GDP over the medium-term. The accompanying improvement in the Federations' structural budget situation will be demonstrated by the fact, inter alia, that at the end of the period covered by this Programme, the Federation will be able to adhere to the constitutional

ceiling on borrowing without having to resort to financial transactions to improve the cash position.

Table 4: Financial balances per level of government

	2005	2006	2007	2008	2009	2010
	- in % des BIP -					
Central government incl. special funds	-2,1	-1 ½	-1 ½	-1	-1	-1
State and local government	-1,0	- ½	-0	- ½	-0	0
Social security funds	-0,2	0	-0	-0	0	0
General government ¹⁾	-3,2	-2,1	-1 ½	-1 ½	-1	- ½

(1) The fiscal balances have been rounded to within a half a percentage point. Discrepancies between the total of deficits and the general government deficit are attributable to rounding.

The current forecast with regard to the development of the budgets of the **Länder and local authorities** depicts a very positive situation. The assumptions underlying the forecasts were discussed on 10 November in the Financial Planning Council between the Federal Minister of Finance and the regional finance ministers. By continuing the course of structural consolidation, the *Länder* budgets are making a substantial contribution to reducing the government deficit; the deficit of the *Länder* including their local authorities will be almost fully eradicated in 2007. *Länder* spending on employee remuneration – which makes up roughly 31% of total expenditure - will be reduced in 2006 and 2007 by an average of approximately ½% per year. Spending on personnel is expected to rise again in 2008 due to collectively agreed pay rises.

In addition to Germany's political subdivisions, its **social insurance funds** are also set to benefit from the favourable economic environment. Slightly increasing revenue from contributions will be accompanied by savings on the expenditure side, especially with regard to the *Arbeitslosengeld I*, or short-term unemployment benefit. This decline in unemployment benefit paid will lead in 2006 to a substantial surplus at the *Bundesagentur für Arbeit*. However, a deficit of between 0.1% and 0.2% of GDP is expected at the *Bundesagentur für Arbeit* for 2007 as a result of reduced social contributions. Retirement insurance is also expected to return a deficit: in the coming year the deficit should amount to roughly 0.1% of GDP. Thereafter, the financial position of the social insurance funds is set to improve dramatically up to 2010. Changed contributions to pension and health insurance combined with the retirement of a relatively sparsely populated generation will mean a markedly slower increase in transfers from social insurance funds. As a result, the social insurance funds are likely to exhibit a surplus by the end of the forecast period.

4.2 Development of expenditure and revenue

Revenue trends

Revenue from taxes in accordance with the National Accounts definition is expected to grow this year by roughly 6½% compared to 2005. Tax revenue is therefore developing more favourably than predicted in the last update of the Stability Programme (February 2006): The level of taxes is about 1% of GDP higher than forecast in February. The tax ratio for 2006 is now expected to be 23% of GDP. Taxes on profits in particular are enjoying surprisingly high growth. Revenue from corporation tax is up by roughly 42% on last year's figure. However, this increase will not fully lead to a permanently improved government tax base; revenue from profit-dependent taxes is generally associated with substantial non-cyclical fluctuations. Revenue from corporation tax and trade tax is expected to decline in 2007. There is expected to be a clear structural improvement in the tax base from 2007, above all as a result of the planned tax measures. It is predicted that these measures will lead to an increase in tax revenue of some 5½%, with the tax ratio at about 23½% of GDP.

The rising tax ratio will be largely balanced by a declining **social contribution ratio**. This year, as a result of weak trends in gross wages, social contributions will grow by a mere ½%. This development alone will be enough to see the social contribution ratio fall to 17½% of GDP, despite constant contribution rates. The tax measures will then be partly compensated for in 2007 by a reduction in social contributions. The nominal contribution rate will fall from roughly 42% in 2006 to approx. 40½% in 2007. At the same time, gross wages are expected to rise at a rate significantly slower than that of nominal GDP. As a result, despite tax increases, overall the fiscal charges ratio will remain constant at roughly 40% of GDP. The inadequate growth in gross wages assumed over the period covered by the Programme is expected, however, to temporarily lead to a renewed decline in the fiscal charges ratio.

Table 5: Development of tax, social contribution, and fiscal charges ratio

	2005	2006	2007	2008	2009	2010
	- in % des BIP -					
Tax ratio	22,0	23	23 ½	23	23	23 ½
Social contribution ratio	17,7	17 ½	16 ½	16 ½	16	16
Fiscal charges ratio¹⁾						
November 2006 forecast	39,7	40	40	39 ½	39 ½	39
February 2006 forecast	39,5	39	39 ½	39	39	-

(1) Discrepancies between the fiscal charges ratio and the total of tax ratio and social contribution ratio are the result of rounding.

Total **government revenue** will amount to roughly 43½% of GDP in 2007; despite the tax increase, there will be no increase in the general government revenue ratio compared to the pre-year. Here, in addition to the social contributions, the effects of declining **other revenue** will be felt. Thus, capital earnings will decline by roughly 0.1 percentage points of GDP in 2007 as a result of the early repayment of claims owed to Germany.

Government expenditure to grow by only ½% in 2006

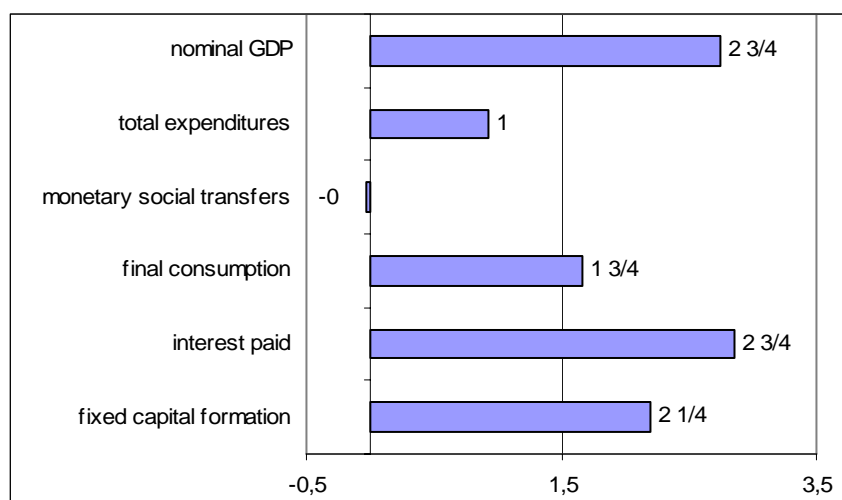
Although the favourable revenue trend this year has gone a long way towards eliminating the excessive deficit, compared to the developments in 2005, by far the largest contribution to consolidation has come from the spending side. While the revenue ratio will experience only moderate growth compared with the pre-year level, the government spending ratio will drop from 46.8% of GDP in 2005 to 45½% of GDP as a result of the muted growth in spending of roughly ½%. The government spending ratio is expected to fall further in 2007, reaching approx. 45% of GDP. The decline of the government spending ratio thus is a major factor in reducing the deficit ratio.

Table 6: Development of the government spending ratio

	2005	2006	2007	2008	2009	2010
Government expenditure ratio	- in % des BIP -					
November 2006 forecast	46,8	45 ½	45	44 ½	43 ½	43
February 2006 forecast	46,7	46	45	44	43 ½	-

Spending is expected to grow at an average annual rate of roughly 1% over the period covered by the Programme. As a result, the government spending ratio would be expected to decline to roughly 43% of GDP by the end of the period covered. While on the one hand, given improved revenues, more government expenditure on personnel, running material costs and investments has been assumed in the forecast, on the other hand, it is assumed that the monetary social transfers (roughly 41% of government expenditure) will not rise any further (Fig. 1), a scenario which corresponds to developments in the economy as a whole.

Fig. 1: Average annual percentage change in individual expenditure positions from 2005 to 2010



4.3 Development of the structural deficit / adjustment path with regard to the medium-term budget objective

Cumulative reduction of the structural deficit in 2006 and 2007 exceeds 1 percentage point

It is expected that the structural deficit will be reduced in 2006 by approx $\frac{3}{4}$ of a percentage point. In 2007, the decline will be $\frac{1}{2}$ a percentage point. The ECOFIN Council recommendation to achieve a cumulative reduction of the structural deficit in 2006 and 2007 of more than 1 percentage point will thus be easily met.

The change in the 2006 structural deficit shows that the improvements in the nominal deficit ratio of 1.1 percentage points in 2006 compared to the previous year cannot be put down to cyclical factors alone. Although the production gap of approx. -1% of potential GDP improved to almost zero in 2006, the budget sensitivities used in the method adjusted for cyclical factors suggest that this accounted for a “mere” $\frac{1}{2}$ a percentage point improvement in the deficit, with the rest explainable by “structural” factors. This is evidence, first of all, of the additional consolidation effects of the restrictive spending policy. Second of all, strong variations with regard to profit-dependent taxes are not explained as “cyclical” by the normal methods of adjusting for cyclical factors. In this regard, one problem, for example, is that the tax base for profit-dependent taxes cannot be adequately represented in the models available. In addition, it is in no way clear, *a priori*, that an increase in corporate profits is determined by cyclical factors alone. For example, structural macroeconomic effects could be making themselves felt here. In addition, there may also be substantial distortions caused by multi-period effects. As a result, it is impossible to put the changes to corporate profits exclusively down to actual

cyclical effects. This shows, once again, that the cyclically-adjusted deficit is merely an analytical tool which can provide approximate information on the effects of a given fiscal policy.

Adjustment path with regard to the medium-term budget objective

Germany is pursuing the objective of a structurally balanced budget over the medium-term. Hence the strategy of structural consolidation will be continued over the period covered by the Programme. The structural deficit will be reduced on average by ½ a percentage point each year over the course of this period. At the end of the period, the structural deficit will amount to a mere 1% of GDP. However, the introduction of corporate taxation reforms in 2008 will mean that there will be no reduction in the structural deficit in that year. The course of structural budget consolidation will be extended to take account of possible reductions in revenue as a result of the corporate tax reform, since the benefits of the reform which emanate from the improvement in the fiscal conditions will not be felt until the medium term.

Table 7: Development of structural borrowing/lending

	2005	2006	2007	2008	2009	2010
Real GDP growth	0,9	2,3	1 ½	1 ¾	1 ¾	1 ¾
Borrowing/lending by the public sector as a % of GDP	-3,2	-2,1	-1 ½	-1 ½	-1	- ½
Borrowing/lending adjusted for cyclical effects as a % of GDP	-2,7	-2	-1 ½	-1 ½	-1	- 1
One-off measures as a % of GDP	-0,1					
Structural borrowing/lending as a % of GDP	-2,8	-2	-1 ½	-1 ½	-1	- 1
Change in structural borrowing/lending in percentage points	½	¾	½	0	½	½

In light of the uncertainty inherent in every forecast, the deficits are rounded to one half of a percentage point of GDP. Differences between the level of the structural deficit and the changes to the structural deficit are the result of rounding

In calculating the structural deficit, the production potential is assumed to grow at roughly 1½ % per year over the forecast period. The assumptions made with regard to the development of productive capacity and the size of the production gap differ to the

autumn forecast of the European Commission in particular in relation to those assumptions on the structural rate of unemployment (NAIRU). In this Programme, in contrast to the Commission's forecast, the labour market reforms implemented are expected to lead to a declining level over the medium-term.

4.4 Development of the level of debt

In comparison with the previous forecast, the level of borrowing has developed more favourably than anticipated. The debt ratio remains in the current year at 67.9% of GDP, in contrast to February's assumption of a rise to 69%. This is a direct consequence of the improved net borrowing position and the surplus cash position of the social insurance funds.

It will therefore be possible to stabilise the level of debt in 2006. The ratio will begin to decline to 67% already as early as next year. Further consolidation could see the level of debt being reduced to 64½% of GDP by the end of the period covered by this Programme.

Table 8: Development of the debt ratio

	2005	2006	2007	2008	2009	2010
Debt ratio	- in % des BIP -					
December 2006 forecast	67,9	68	67	66 ½	65 ½	64 ½
February 2006 forecast	67 ½	69	68 ½	68	67	-

4.5 Sensitivity of the deficit forecast

Sensitivity analysis shows the changes which occur when there are deviations to the macroeconomic assumptions. Changes of ½ a percentage point in GDP growth are assumed for the period from 2007 to the end of the forecast.

The sensitivity analysis shows that a positive deviation with respect to growth of roughly ½ a percentage point over the period in question would lead to a budget surplus in 2010. Conversely, a half a percentage point less growth than predicted could bring the consolidation process to a standstill, with the deficit ratio hovering at around -2% of GDP.

Table 9: Sensitivity of the deficit forecast

	2005	2006	2007	2008	2009	2010
Deficit ratio ¹⁾	- in % des BIP -					
November 2006 forecast	-3,2	-2,1	-1 ½	-1 ½	-1	-½
November 2006 forecast						
<ul style="list-style-type: none"> • assuming lower increase in nominal GDP from 2007 to 2010 (- ½ a percentage point) 			-2	-2	-2	-1 ½
<ul style="list-style-type: none"> • assuming higher increase in nominal GDP from 2007 to 2010 (+½ a percentage point) 			-1 ½	-1	-½	+½

(1) In light of the uncertainty inherent in every forecast, the deficits are rounded to one half of a percentage point of GDP.

Appendix

Table 10: Development of public finances⁽¹⁾

(National Accounts definitions)

	ESA-Code	2005	2005	2006	2007	2008	2009	2010
		Level	% of GDP					
Net lending(B.9) by sub-sector								
General government	S.13	-72,6	-3,2	-2,1	-1 1/2	-1 1/2	-1	- 1/2
Central government	S.1311	-47,7	-2,1	-1 1/2	-1 1/2	-1	-1	-1
State and local government		-21,4	-1,0	- 1/2	-0	- 1/2	-0	0
Social security funds	S.1314	-3,4	-0,2	0	-0	-0	-0	0
General government								
Total revenue	TR	975,9	43,5	43 1/2	43 1/2	42 1/2	42 1/2	42
Total expenditure	TE 18	1048,5	46,8	45 1/2	45	44 1/2	43 1/2	43
Net lending/borrowing	EDP B.9	-72,6	-3,2	-2,1	-1 1/2	-1 1/2	-1	- 1/2
Interest expenditure (incl. FISIM)	EDP D.41 inkl. FISIM	64,4	2,9	3	3	3	3	3
p.m.: FISIM		2,4	0,1	0	0	0	0	0
Primary balance		-10,6	-0,5	1/2	1	1	1 1/2	2
Selected components of revenue								
Total taxes (D.2.+D.5.+D.91.)		493,0	22,0	23	23 1/2	23	23	23 1/2
Social contributions	D.61	397,0	17,7	17 1/2	16 1/2	16 1/2	16	16
Other		85,8	3,8	3 1/2	3 1/2	3 1/2	3	3
Total revenue	TR	975,9	43,5	43 1/2	43 1/2	42 1/2	42 1/2	42
p.m.: tax burden (D2+D.5+D.61+D9-D.995)			39,7	40	40	39 1/2	39 1/2	39
Selected components of expenditure								
Intermediate consumption Social transfers in kind Compensation of employees Other Taxes on production	P.2 D.63 D.1 D.29	431,1	19,2	19	19	18 1/2	18 1/2	18
Social transfers other than in kind	D.62	430,2	19,2	18 1/2	18	17 1/2	17	16 1/2
Interest expenditure (incl. FISIM)	EDP D.41 inkl. FISIM	64,4	2,9	3	3	3	3	3
Subsidies	D.3	26,8	1,2	1	1	1	1	1
Gross fixed capital formation	P.51	30,2	1,3	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Other expenditure		65,9	2,9	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2
Total expenditure	TE 21	1048,5	46,8	45 1/2	45	44 1/2	43 1/2	43
p.m.: Government final consumption	P.32	419,6	18,7	18 1/2	18 1/2	18	18	18

Discrepancies in the totals are the result of rounding

Table 11: Development of public sector debt (“Maastricht” debt)

	ESA-Code	2005	2006	2007	2008	2009	2010
		% of GDP					
Gross debt		67,9	67,9	67	66 1/2	65 1/2	64 1/2
Change in gross debt ratio		2,2	-0	-1	-1	-1	-1
Contribution to changes in gross debt							
Primary balance		-0,5	1/2	1	1	1 1/2	2
Interest expenditure (incl. FISIM)		2,9	3	3	3	3	3

Table 12: Comparison of projections in the February 2006 Stability Programme and the December 2006 Stability Programme

	ESA-Code	2005	2006	2007	2008	2009	2010
Nominal GDP growth (%)							
Current update		1,5	3	2 1/2	2 1/2	2 1/2	2 1/2
Previous update		1,3	2	2 1/2	2 1/2	2 1/2	
Difference		0,2	1/2	-0	0	0	
General government net lending (% of GDP) EDP.9							
Current update		-3,2	-2,1	-1 1/2	-1 1/2	-1	- 1/2
Previous update		-3,3	-3 1/2	-2 1/2	-2	-1 1/2	
Difference		0,1	1	1	1/2	1/2	
General government gross debt (% of GDP)							
Current update		67,9	68	67	66 1/2	65 1/2	64 1/2
Previous update		67 1/2	69	68 1/2	68	67	
Difference		1/2	-1	-1 1/2	-1 1/2	-1 1/2	