

II

(Acts adopted under the EC Treaty/Euratom Treaty whose publication is not obligatory)

DECISIONS

COUNCIL

COUNCIL DECISION

of 5 June 2007

abrogating Decision 2003/89/EC on the existence of an excessive deficit in Germany

(2007/490/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

- (1) By Council Decision 2003/89/EC ⁽¹⁾, following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in Germany. The Council noted that the general government deficit was 3,7 % of GDP in 2002, significantly exceeding the 3 % of GDP Treaty reference value, while general government gross debt was expected to reach 60,9 % of GDP, slightly above the 60 % of GDP Treaty reference value.
- (2) On 21 January 2003, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure ⁽²⁾, the Council addressed a recommendation to Germany with a view to bringing the excessive deficit situation to an end as rapidly as possible and by 2004 at the latest. The recommendation was made public. In view of the unique circumstances created by the Council conclusions of 25 November 2003 and of the ruling of the European Court of Justice of 13 July 2004 ⁽³⁾, the year 2005 should be considered to be the relevant deadline for the correction of the excessive deficit.
- (3) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission

provides the data for the implementation of the procedure. As part of the application of the Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community ⁽⁴⁾.

- (4) Following a provisional notification by Germany in February 2006, actual data provided by the Commission (Eurostat) indicated that the excessive deficit had not been corrected by 2005. Acting in accordance with Article 10(3) of Regulation (EC) No 1467/97, and based on a recommendation from the Commission, the Council on 14 March 2006 immediately took a Decision under Article 104(9) of the Treaty giving notice to Germany to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit as rapidly as possible and at the latest by 2007 ⁽⁵⁾. Specifically, the Council decided that in 2006 and 2007 Germany should ensure a cumulative improvement in its cyclically-adjusted balance net of one-off and temporary measures by at least one percentage point.
- (5) In accordance with Article 104(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

⁽¹⁾ OJ L 34, 11.2.2003, p. 16.

⁽²⁾ OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).

⁽³⁾ Case C-27/04, *Commission v Council*, [2004] ECR I-6649.

⁽⁴⁾ OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

⁽⁵⁾ Council Decision 2006/344/EC (OJ L 126, 13.5.2006, p. 20).

(6) Based on data provided by the Commission (Eurostat) in accordance with Article 8g(1) of Regulation (EC) No 3605/93 following the notification by Germany before 1 April 2007 and on the Commission services' spring 2007 forecast, the following conclusions are warranted:

- the general government deficit, after rising from 3,7 % of GDP in 2002 to 4,0 % of GDP in 2003, was reduced to 3,7 % of GDP in 2004, to 3,2 % of GDP in 2005, and finally to 1,7 % of GDP in 2006. This is lower than the target of 3,3 % of GDP set in the February 2006 update of the stability programme and well below the 3 % of GDP deficit reference value one year before the time limit set by the Council,
- in previous years of favourable cyclical conditions, Germany had not created enough budgetary leeway to accommodate the extended slow growth period between 2002 and 2005 with average real GDP growth at 0,5 % per year. A series of tax cuts, carried out until 2005, burdened the budget further, while offsetting measures on the expenditure side were implemented only with some delay. Consolidation measures included restraint in public sector wages, accompanied by a reduction in staff levels, the reform of the public health system in 2004, a reduction of subsidies and public investment, but also the fact that low wage growth in the private sector dampened pension outlays. Furthermore, in 2006, direct taxes, especially those related to profits, yielded stronger revenues than economic developments would have suggested. The cyclically-adjusted balance improved from 2002 onwards, without recourse to significant one-off measures. Particularly in 2006, the estimated structural balance, excluding one-off and other temporary measures, as a percentage of GDP improved by close to one percentage point,
- for 2007, the Commission services' spring 2007 forecast projects that the deficit will be reduced further to 0,6 % of GDP, driven by continuing high GDP growth and, in particular, the increase in the standard VAT rate from 16 % to 19 % as of January 2007. No one-offs are envisaged. In the spring 2007 notification, the German authorities estimated the 2007 deficit at 1,2 % of GDP. Moreover, the Commission services project an improvement in the structural balance as a percentage of GDP amounting to $\frac{3}{4}$ percentage point in 2007. Thus, Germany appears to comply

with the recommended improvement in the structural balance of at least one percentage point in 2006 and 2007 in cumulative terms. For 2008, the spring forecast projects, with unchanged policies, a further decline in the deficit to 0,3 % of GDP. This indicates that the deficit has been brought below the 3 % of GDP ceiling in a credible and sustainable manner. With unchanged policies, the structural deficit is expected to decline only marginally in 2008. This should be seen against the need to make progress towards the medium-term objective for the budgetary position, which for Germany is a balanced budget in structural terms,

- after rising from 60,3 % of GDP in 2002 to a peak of 67,9 % of GDP in 2005, the debt ratio stabilised in 2006 and is projected to decline to 65,4 % of GDP in 2007 and to about 63½ % by 2008 on a no-policy change basis according to the Commission services' spring 2007 forecast, thus coming closer to the reference value more rapidly than projected in the most recent update of the stability programme.

(7) In the view of the Council, the excessive deficit in Germany has been corrected and Decision 2003/89/EC should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Germany has been corrected.

Article 2

Decision 2003/89/EC is hereby abrogated.

Article 3

This Decision is addressed to the Federal Republic of Germany.

Done at Luxembourg, 5 June 2007.

For the Council
The President
 P. STEINBRÜCK