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Commission assesses the German Stability Programme

The European Commission has published a recommendation to the Council of Ministers on the German stability programme. The recommendation is made in accordance with the new reinforced procedures of the stability and growth pact for the monitoring of the economic and budgetary policies of the countries of the European Union (EU). The German stability programme covers the period 1998-2002 and projects a decline in the general government deficit ratio to 1% of GDP by the end of the period. At the same time, the debt ratio is expected to fall to 59.5% of GDP. The Commission concludes that the envisaged medium-term target is in line with the requirements of the stability and growth pact. However, the Commission considers that the deficit target represents only a minimum position, as it does not allow any additional safety margin for unforeseen developments in economic activity or government finances nor does it allow for the budgetary burden of future demographic developments. Moreover, the government deficit is expected to remain stable until 2001. The structural measures announced in the programme appear appropriate but should be combined with reforms of product and labour markets in line with the Broad Economic Guidelines agreed at the Cardiff European Council. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the German programme on 15 March.

The Commission recommendation is adopted on the initiative of President Jacques Santer and Yves-Thibault de Silguy, Commissioner responsible for economic, monetary and financial affairs, as part of the procedures in the stability and growth pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact, agreed by the Amsterdam European Council in June 1997, requires countries participating in the Euro-zone to present stability programmes to the Council and the Commission. These programmes aim to demonstrate how countries intend to meet the objectives of the Pact and in particular the medium-term goal of a budget close to balance or in surplus. The Commission's analysis considers in particular whether the medium-term budgetary target provides a sufficient margin for normal cyclical fluctuations without exceeding the reference value of 3% of GDP. The programmes cover the current year and at least three future years. (The German programme covers the period 1998-2002).

The Commission’s main conclusions are the following:

- the macroeconomic scenario underlying the German stability programme, assuming an average output growth slightly above trend growth over the projection period, does not appear overly optimistic; the scenario is nevertheless subject to downside risks if the current slowdown in world economic growth is to continue; in the medium-term, growth prospects are likely to be dependent on a durable improvement on the labour market, which requires wage moderation and further structural reforms;
- the programme envisages a decline in the general government deficit ratio to 1% of GDP by 2002 and the gross debt ratio is expected to fall to 59.5% over the same period. The profile of deficit reduction implies little change between 1998 and 2000 with the first significant fall in 2001. Similarly, the debt ratio is expected to remain unchanged at 61% of GDP until 2001, when it is projected to decline. The Commission recommends that government should take any necessary measures to avoid increases in the debt ratio. It would futhermore be desirable to reduce the deficit below 1% of GDP in 2002 if economic growth is stronger than expected;
- the reduction in the government deficit is achieved by a simultaneous decrease in expenditure and revenue as a percentage of GDP, with expenditure falling more quickly than revenue. One factor leading to lower revenue is plans for tax relief which should boost job creation;
- the envisaged medium-target deficit target is in line with the requirements of the Stability and Growth Pact as it provides the required margin to prevent the government deficit from exceeding the 3% of GDP reference value under normal cyclical conditions;
- however, the deficit target represents only a minimum position as it does not include a safety margin to provide for unforeseen developments in economic activity or in government finances nor does it make room for the budgetary burden of future demographic developments. Moreover, the uneven pattern of planned deficit reductions means that only from 2001 on the deficit becomes closer to the objective required by the Stability and Growth Pact;
- the structural policy measures set out in the programme appear appropriate but should be combined with reforms of product and labour markets in line with the Broad Economic Policy Guidelines. Determined implementation of reform, in particular in the pension and health systems and in public administration, would appear essential for the success of the stability programme;

Key figures of the German stability programme

	1998	1999	2000	2001	2002
Real GDP growth rate (annual % change)	2.8	2	2.5	2.5	2.5
General government budget deficit (% of GDP)	2.1	2	2	1.5	1
Government debt (% of GDP)	61	61	61	60.5	59.5
Inflation (private consumption deflator, annual % change)	1	1	2	2	2
Employment (%)	0.1	0.5	0.5	0.5	0.5