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Commission assesses the updated Stability Programme of Germany

The European Commission today adopted a Recommendation to the Council of Ministers on the updated stability programme of Germany (1999-2003). The Commission concluded that the updated programme is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. Building on the better-than-expected outcome for the general government deficit in both 1998 and 1999 the update projects a decline in the general government deficit ratio to 1 % of GDP in 2000 and to ½ % of GDP by 2003. During the same period, the debt ratio is expected to fall to 58½ % of GDP. Budgetary projections are based on a macroeconomic scenario assuming average GDP growth of 2.5% per year over the period 2000-2003. On the basis of the Commission's Recommendation, the Council is expected to adopt a formal opinion on the updated German programme on [28 February 2000].

The Commission Recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, as part of the procedures set 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, adopted by the European Council at its meeting in Amsterdam in June 1997, requires Member States participating in the euro-zone to present stability programmes and their updates to the Council and the Commission. The programmes provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term budgetary target of a general government budget close to balance or in surplus which will enable their finances to withstand normal cyclical fluctuations without exceeding the reference value of a deficit of 3 % of GDP. The German updated programme was submitted on 1 December 1999 and additional information was submitted by the German authorities on 1 February 2000.

The Commission's Recommendation highlights the following:

- The macroeconomic scenario underlying the updated German stability programme assumes average growth of 2½ % per year over the period 2000-2003. Provided that wage moderation and structural reforms on product and labour markets continue these growth projections appear attainable.
- General government finances in Germany have, in spite of slow economic growth, improved beyond initial targets in both 1998 and 1999. The better results, however, are almost exclusively attributed to the positive performance of rather volatile and difficult to predict regional and local government finances. This underlines the importance of a more efficient public finance agreement between the federal and other levels of government in order to increase the sustainability of the good budgetary performance.

- Building on these achievements and on the welcome budgetary savings measures included in the federal government’s medium-term programme, the updated programme envisages sizeable reductions in taxes for both households and businesses in 2001. As a consequence, the general government deficit, which is projected to decline to 1 % of GDP in 2000 is likely to increase to 1½ % in 2001 before gradually falling back to the target of ½ % of GDP by 2003.
- Owing to the strong consolidation of government finances in recent years, Germany has reached an underlying medium-term budgetary position in line with the Stability and Growth Pact requirements. However, due to the tax reforms, the underlying structural budgetary position will not improve over the entire programme period. The German government will, therefore, need to implement these reforms with greatest caution in order not to risk a lasting deterioration in the structural government deficit. Moreover, any additional fiscal gains from, e.g., higher than projected economic growth should be used to reduce the deficit below the targeted level with a view to widening the safety margin and creating additional room for the further tax reductions planned beyond the programme's horizon.
- With the ratio of gross debt to GDP forecast to fall only slowly, privatisation efforts at all levels of government should be stepped up in order to counter any risks to the programme’s debt objectives. Given the predictable ageing of the German population, a more forceful reduction of the debt ratio now could considerably reduce the burden inherited by future generations.
- Further efforts at structural reforms not only of the social security systems (pension, health), but also of product and labour markets could contribute to improving the medium-term growth prospects in Germany, also enabling the country to stop the ongoing reduction in public investment at least at the federal level, which gives rise to concern.

Key figures of the German Stability Programme

	1999	**2000**	**2001**	**2002**	**2003**
Real GDP growth rate (annual % change)	1.4	2 ½	2 ½	2 ½	2 ½
General government budget deficit (% of GDP)	1.2	1	1 ½	1	½
Government debt (% of GDP)	61	61	60.5	59.5	58 ½
Inflation (private consumption deflator, annual % change)	0.5	1-1 ½	1 ½	1 ½	1 ½