II

(Acts whose publication is not obligatory)

COUNCIL

COUNCIL DECISION

of 14 March 2006

giving notice to Germany, in accordance with Article 104(9) of the Treaty establishing the European Community, to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit

(2006/344/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(9) thereof,

Having regard to the recommendation from the Commission pursuant to Article 104(9) of the Treaty,

Whereas:

(1) According to Article 104(1) of the Treaty, Member States are to avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. The Stability and Growth Pact includes Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure [1].

(3) The Resolution of the Amsterdam European Council of 17 June 1997 on the Stability and Growth Pact [2] solemnly invites all parties, namely the Member States, the Council and the Commission, to implement the Treaty and the Stability and Growth Pact in a strict and timely manner.

(4) By Decision 2003/89/EC [3], the Council decided, in accordance with Article 104(6) of the Treaty, that an excessive deficit existed in Germany.

(5) In accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation (EC) No 1467/97, the Council addressed a recommendation to Germany on 21 January 2003, calling on Germany to bring the excessive deficit to an end as rapidly as possible and by 2004 at the latest. The recommendation was made public. As stated in the Commission Communication of 14 December 2004, with which the Council concurred on 18 January 2005, 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, the year 2005 should be considered to be the relevant deadline for the correction of the excessive deficit.

(6) The general government deficit in Germany has been well above the 3 %-of-GDP Treaty reference value since 2002. The debt-to-GDP ratio has increased from below the 60 % of GDP Treaty reference value in 2001 to a projected 69 % of GDP in 2006.

[1] 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).
[2] OJ C 236, 2.8.1997, p. 1.
[3] OJ L 34, 11.2.2003, p. 16.

(7) According to data provided by Eurostat, the general government deficit in Germany amounted to 3,3 % of GDP in 2005. These data, pending a further assessment of their quality, are based upon a provisional notification from Germany pursuant to 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 [1], submitted to the Commission on 24 February 2006. Additionally, on the basis of information currently available, taking into account the budgetary plans adopted so far by the German government, the general government deficit will also remain above the Treaty reference value in 2006, which confirms that the excessive deficit has not been corrected.

(8) According to Article 10(3) of Regulation (EC) No 1467/97, if actual data pursuant to Regulation (EC) No 3605/93 indicate that an excessive deficit has not been corrected by a participating Member State within the time limits specified in a recommendation issued under Article 104(7) of the Treaty, the Council shall immediately take a decision under Article 104(9) of the Treaty giving notice to the Member State to take, within a specified time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation.

(9) The Commission services' autumn 2005 forecast projected the 2005 deficit at 3,9 % of GDP [2]. On a no-policy-change basis, the Commission services' forecast projected the deficit at 3,7 % and 3,3 % of GDP in 2006 and 2007 respectively. Real GDP growth was projected at 0,8 % in 2005, 1,2 % in 2006 and 1,6 % in 2007, with the output gap not fully closing over the forecast period. Against this background, and in view of the still fragile economic situation, the German government, following the elections on 18 September 2005, devised a strategy to bring the general government deficit below the Treaty reference value by 2007. The government began to implement this consolidation strategy in December 2005, with the adoption of the first measures foreseen therein. On 22 February 2006, the government adopted the draft federal budget for 2006 and, notably, also adopted the draft law to raise the central VAT rate from 16 % to 19 % as from 1 January 2007.

(10) On 22 February 2006, the Federal Statistical Office released figures for GDP growth and the general government deficit in 2005, at 0,9 % and 3,3 % of GDP respectively. The difference with respect to the Commission services' autumn forecast can be found to a large extent in better-than-expected revenues towards the end of 2005. The Commission services' interim forecast, published on 21 February 2006, projects real GDP to grow by 1,5 % in 2006, which is slightly above the low potential growth rate. It should be noted that this projection is biased upwards by the expected pre-emptive response of domestic demand to the planned increase in the VAT rate. Taking into account the subsequent economic effects, GDP growth in 2007 is currently expected to be close to 1 %. In line with the above macroeconomic forecast, the nominal deficit is expected to stay slightly above 3 % of GDP in 2006, but to drop clearly below the reference value in 2007. After an improvement of slightly less than 0,5 % between 2004 and 2005, the structural deficit (i.e. the deficit in cyclically-adjusted terms, net of one-off and temporary measures) is projected by Commission services to remain broadly unchanged as a percentage of GDP between 2005 and 2006 and to narrow by at least 1 % of GDP in 2007.

(11) The following factors should be taken into account in setting the deadline for the correction of the excessive deficit. First, the budgetary adjustment being implemented is embedded in a comprehensive strategy with the planned measures already well advanced in the adoption process, which reduces uncertainty regarding the effectiveness of the consolidation. These measures are of a structural nature and do not contain one-offs. Secondly, the limited effects in terms of reduction of the structural deficit expected in 2006 reflect, at least in part, the fact that some of the measures already implemented will produce results only with a lag. Thirdly, a structural adjustment of at least 1 % of GDP in 2006 and 2007 planned by the government can be considered as consistent with the SGP provisions, including the required annual improvement to the cyclically-adjusted balance net of one-off and temporary measures of at least 0,5 % of GDP as a benchmark. Based on the overall macroeconomic forecast outlined in recital 10, such an adjustment, which needs to be rigorously implemented, would be sufficient to correct the excessive deficit in a permanent and sustainable manner.

(12) In the light of these factors, it appears that the excessive deficit should be corrected by 2007 at the latest. The benchmark 0,5 % of GDP annual improvement in the structural balance should be respected in cumulative terms in 2006 and 2007.

[1] 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).

[2] This was broadly in line with the figure notified by the German authorities on 1 September 2005 (3,7 % of GDP), the main difference stemming from the securitisation undertaken by the pension office for former post office civil servants, which was not treated as deficit-reducing in the autumn forecast.

(13) According to the second subparagraph of Article 104(9) of the Treaty, the Council may request Germany to submit reports in accordance with a specific timetable in order to examine the adjustment efforts made in order to comply with this Decision. Germany should submit a report to the Commission by 14 July 2006 at the latest, outlining the measures taken and planned to comply with this Decision. In particular, the report should include a budgetary assessment of the measures, quantifying their effects on the budgetary outcome in both 2006 and 2007, to correct the excessive deficit and analyse possible risks associated with the assumed macroeconomic scenario. The Commission will evaluate this report with a view to assessing progress made towards the correction of the excessive deficit. Germany should submit further reports in line with the deadlines for reporting government deficits and debt provided for by Article 4 of Regulation (EC) No 3605/93.

(14) Adjustment measures should secure a lasting improvement in the general government balance. In order to ensure a sustained budgetary consolidation towards Germany's medium-term objective of a balanced budget in structural terms, a reduction in the structural deficit of at least 0,5 % of GDP per year is necessary after the correction of the excessive deficit,

HAS ADOPTED THIS DECISION:

Article 1

1. Germany shall put an end to the present excessive deficit situation as rapidly as possible and at the latest by 2007.

2. In 2006 and 2007, Germany shall ensure a cumulative improvement in its cyclically-adjusted balance net of one-off and temporary measures of at least one percentage point.

Article 2

1. Germany shall submit to the Commission, by 14 July 2006 at the latest, a report outlining the measures taken to comply with this Decision. The Commission will evaluate this report with a view to assessing progress made towards the correction of the excessive deficit.

2. Germany shall submit further reports to the Commission, by 1 October 2006, 1 April 2007, 1 October 2007 and 1 April 2008, examining progress made in complying with this Decision.

Article 3

Germany shall take the necessary measures to ensure that budgetary consolidation towards its medium-term objective of a balanced budget in structural terms is sustained through a reduction in the structural deficit of at least 0,5 % of GDP per year after the excessive deficit has been corrected.

Article 4

This Decision is addressed to the Federal Republic of Germany.

Done at Brussels, 14 March 2006.

For the Council
The President
K.-H. GRASSER