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Council closes excessive deficit procedures for Germany and Bulgaria

The Council today[1] adopted decisions closing excessive deficit procedures for Germany and Bulgaria, thus confirming that they have reduced their deficits below 3% of GDP, the EU's reference value for government deficits.

The decisions, adopted under article 126(12) of the Treaty on the Functioning of the European Union, abrogate decisions that the Council took in December 2009 and July 2010 respectively on the existence of excessive deficits in Germany and Bulgaria, under article 126(6) of the treaty.

As a consequence, 21 of the EU's 27 member states remain subject to the excessive deficit procedure, down from 23. A large number of procedures were opened subsequent to the global financial crisis and recession of 2008 and 2009; the EU's stability and growth pact (of which the excessive deficit procedure is part) is being used to support a rapid return by member states to sound fiscal positions.

Germany

The excessive deficit procedure for Germany was opened in December 2009, when the Council also adopted a recommendation, under article 126(7) of the Treaty, on corrective measures to be taken. Germany planned a general government deficit of 3.7% of GDP for 2009 and a general government gross debt of 74.2% of GDP, above the EU's reference values of 3% and 60% of GDP respectively.

1 The decisions were taken at a meeting of the Economic and Financial Affairs Council.

PRESS

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The Council called on Germany to bring its deficit back below the 3% of GDP threshold in 2013 at the latest. To achieve this, it called for a fiscal effort of at least ½ % of GDP on average annually over the 2011-13 period.

Having reached 4.3% of GDP in 2010, Germany's general government deficit was reduced to 1% of GDP in 2011, below the 3% threshold and two years ahead of the deadline set by the Council. This improvement was driven by favourable cyclical conditions, a robust labour market, fiscal consolidation efforts and the phasing-out of economic stimulus and financial sector stabilisation measures.

Germany plans for the deficit to remain at 1% of GDP in 2012 and to drop to ½ % of GDP in 2013, which is broadly in line with the Commission's forecast.

The Council concluded that Germany's excessive deficit has been corrected.

Following correction of its deficit, Germany is in a three-year period during which it should make sufficient progress towards compliance with the benchmark set for the reduction of government debt, namely an average reduction of one-twentieth per year of the differential with respect to the 60% of GDP reference value.

Its debt-to-GDP ratio reached 83% in 2010, notably due to the transfer of impaired assets to "bad banks" in the context of financial sector stabilisation. After dropping to 81.2% in 2011, the debt is expected to increase again to 82% in 2012 as a result of euro area stabilisation measures, before falling to 80% in 2013 and declining further thereafter. This is also broadly in line with the Commission's forecast.

The Council also concluded that Germany's planned fiscal adjustment is consistent with the debt reduction benchmark.

Bulgaria

The excessive deficit procedure for Bulgaria was opened in July 2010, when the Council also adopted a recommendation, under article 126(7) of the Treaty, on corrective measures to be taken. Bulgaria had registered a general government deficit of 3.9 % of GDP in 2009[1].

The Council called on Bulgaria to bring its deficit back below 3 % of GDP in 2011 at the latest. To achieve this, it called for a budgetary effort of at least ¾ % of GDP in 2011.

Bulgaria reduced its general government deficit to 3.1% of GDP in 2010 and to 2.1% of GDP in 2011. The Commission projects the deficit to continue falling to 1.9% of GDP in 2012 and to 1.7% of GDP in 2013.

The Council concluded that Bulgaria's excessive deficit has been corrected.

[1] Bulgaria's general government gross debt was 14.8% of GDP in 2009, well below the EU's 60% reference value.