

Germany finalises second stimulus package

January 13, 2009

The three parties supporting German Chancellor Angela Merkel agreed at talks late Monday in Berlin on a fresh round of stimulus for the weakening German economy, caucus leaders at the meeting said.

The party officials said the governing parties had committed to a huge wave of spending likely to inject up to €50 billion (\$66 billion) into Europe's biggest economy.

In addition, the federal government would set up a massive fund to give loans and guarantees to struggling industries.

The "credit and guarantee fund" will reportedly be worth €100 billion. Officials said its name would be a way of stressing that it would not be a vehicle for taking industries into government ownership.

The Social Democrats (SPD) and Christian Social Union (CSU) have been wrangling for weeks with Merkel's Christian Democratic Union (CDU) over the package, with each of them eager to include pet policies in the huge surge of state spending.

Change of heart

Merkel initially resisted vast government spending as an antidote to recession, as advocated by the French and British governments, but a stream of bad economic data and the prospect of a general election this September changed the government's mind.

The round of emergency spending, spread over two years, would be the biggest since modern Germany was established in 1949.

The broad terms were jointly announced by the chiefs of the three governing-party caucuses in the Bundestag parliament, Volker Kauder of the CDU, Peter Ramsauer of the CSU and Peter Struck of the SPD.

They said the cuts in corporate and income taxes, to take effect on July 1, would inject €9 billion into the German economy, with the income tax scale beginning at 14 instead of 15 per cent.

A cut in state health-insurance premiums for German workers would cost a further €9 billion. Families with children are to receive a one-off bonus benefit of €100 per child, they added.

"Wrecking bonus"

Massive new government investment in education, highways and other projects would total 18 billion euros.

Sources said the six-hour meeting also produced agreement to grant a "wrecking bonus" to new-car buyers who send their old cars to the crusher. The car industry has been complaining at slumping sales in Germany.

Merkel is scheduled to brief opposition parties early Tuesday. She will then detail the package at a news conference, joined at the microphone by Foreign Minister Frank-Walter Steinmeier, who is the Social Democratic Party's nominee for the chancellorship at this year's election, and Bavarian Premier Horst Seehofer.

The tax cuts marked a victory for the CSU, the Bavaria-only party that Seehofer leads. It had repeatedly attacked Merkel's insistence on balancing the budget before reforming tax scales.

Recession takes hold

While the three-year-old grand coalition of Germany's main parties has become more fractious as the general election nears, there was broad agreement before the meeting that action against the slump was urgently needed.

A slew of fresh data has underscored that a deepening recession is taking hold in Europe's biggest economy. Figures last week showed a dramatic 10.6-per cent plunge in German exports in November along with a hefty drop in factory orders and a bigger-than-forecast rise in December unemployment.

Leading German companies have already announced plans for layoffs and production cuts as global economic growth spirals downwards.