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German cabinet adopts €23 billion stimulus plan

By Katrin Bennhold

Chancellor Angela Merkel's cabinet approved a €23 billion stimulus package Wednesday in a bid to unlock more than twice that amount in investments and help Germany, the world's biggest exporter, to weather a sharp global slowdown.

The measure, which amounts to about 2 percent of German gross domestic product, includes tax breaks on purchases of new cars, loans to small and midsize businesses, and money for roads and railways.

But some economists warned that the effort, while big enough to risk delaying the government's goal of balancing the budget, might still be too small to significantly alter the effect of falling demand at home and abroad.

Merkel appeared to dismiss such concerns by defending the package as "bold" and calling it a "bridge" to 2010, when growth is expected to pick up again. "We will have difficulties in 2009," Merkel said Wednesday. "We want to do something to counter this with investment incentives."

The plan, which still requires parliamentary approval, will be financed over four years, with €10.5 billion, or $13.7 billion, coming out of the federal budget and the rest from state authorities, the finance ministry said.

Consumers can look forward to a one-year tax holiday on new cars and subsidies for certain household repairs, especially those enhancing the energy efficiency of buildings. Companies will get a lift from measures aimed at facilitating access to credit and from government plans to bring forward infrastructure investments.

The announcement comes less than three weeks after Berlin rushed through a €480 billion emergency package for German banks. The new program is likely to push back efforts to balance the federal budget to the end of the next legislative period in 2013, said the finance minister, Peer Steinbrück.

The measures Wednesday were announced a day before the European Central Bank was expected to make its second interest rate cut in a month, this time by at least half a point.

But as the odds of a drawn-out global recession increase, monetary policy is not the only lever available, economists say. Governments should lower taxes and increase spending to make up for weak private demand, they say.

With the German economy stalling and business confidence at a five-year low, several politicians had called for a more sweeping stimulus package.

The European Commission predicted Monday that German growth would stagnate in 2009, an election year, as demand for its exports dried up worldwide. A week earlier, the government cut its growth forecast for next year from 1.2 percent to just 0.2 percent, the slowest pace since the 2003 recession.

But Merkel's government, which has been praised for its fiscal prudence in recent years, has been reluctant to splurge. The latest measures amount to only about half of what finance ministry officials privately say would be the minimum for an effective stimulus package.

The package "is too small," Stefan Bielmeier, an economist at Deutsche Bank in Frankfurt, said. "We believe that the growth impulses will be smaller than expected by the government."

From Washington to Tokyo, governments have allowed their deficits to widen in a bid to escape the vicious cycle the economist John Maynard Keynes once dubbed the "liquidity trap" — a crisis of confidence that prompts companies and households to hoard money instead of lending or spending it, thereby aggravating the slump.

Reuters

Angela Merkel

The United States became the first country to pass such a package in the current crisis. President George W. Bush signed a $168 billion package into law in February that sent tax rebates of as much as $600 to individuals and $1,200 to couples. President-elect Barack Obama has called for another measure, worth $175 billion.

Elsewhere, Japan unveiled a ¥5 trillion, or $51 billion, program targeting small business and families, while Spain announced its own measures.

The only risk, analysts say, is that governments take advantage of the situation and protect specific industries or national corporate champions with taxpayer's money rather than making funds broadly available.

President Nicolas Sarkozy of France last week made waves by announcing a strategic investment fund aimed at fending off "foreign predators" seeking to buy stakes in French companies whose share prices have been beaten down.

Berlin aid for Commerzbank runs into a delay at the EU. *Page 21*