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Task Force on
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Briefing 3
Second Revision

The Federal Republic of Germany and EMU

Directorate-General for Research
Division for Economic Affairs

The views expressed are those of the author and do not necessarily reflect the European Parliament's position.

The Commission's recommendation to the Council is that Germany satisfies the criteria for the introduction of a single currency. The EMI notes in its report that, in order to bring the debt ratio back to 60%, considerable further progress towards consolidation is necessary.

Luxembourg, 20 April 1998

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Introduction

Article 109j of the EC Treaty lays down the procedures and timetable for the decisions on moving into the third phase of Economic and Monetary Union (EMU). After the European Council meeting in Dublin on 13 December 1996 had decided that the criteria for the introduction of the single currency were not fulfilled by a majority of the Member States, that the Community would not move into the third phase in 1997 and that the procedure under Article 109j(4) of the EC Treaty should be applied at the earliest possible time in 1998, the Commission and EMI presented their convergence reports on 25 March 1998. In accordance with Article 109j(1) of the EC Treaty, they reported to the Council *'on the progress made in the fulfilment by the Member States of their obligations regarding the achievement of economic and monetary union'.* The reports were also required to examine the compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 107 and 108 of the Treaty and the Statute of the ESCB, and whether or not a high degree of sustainable convergence had been achieved. The measure of this, according to Article 109j(1), is whether the individual Member States fulfil the convergence criteria relating to price stability, public finances, exchange rate stability and long-term interest rates. These four criteria and the periods over which they are to be respected are developed further in a Protocol annexed to the EC Treaty. The reports of the Commission and the EMI had also to take account of the development of the ecu, the results of the integration of markets, the situation and development of the balance of payments on current account and the development of unit labour costs and other price indices.

According to Article 109j(2), first indent, the Council is to assess on the basis of these reports, acting on a recommendation from the Commission, whether each Member State fulfils the necessary conditions for the adoption of a single currency, and recommend its findings to the Council meeting in the composition of the Heads of State or Government on 2 May in Brussels; the latter must, in accordance with Article 109j(4) and taking due account of the opinion of the European Parliament, decide which Member States fulfil the necessary criteria for the introduction of a single currency.

I. Economic convergence

Table 1: Germany and the Maastricht criteria (1995-1998)

	Inflation	**Budget deficit (in % of GDP) Target: 3%**	**Debt (in % of GDP) Target: 60%**	**Long-term nominal interest rate (in % p.a.)**
1995	**1.8**	**3.3**	**58.0**	**6.9**
1996	**1.5**	**3.4**	**60.4**	**6.2**
1997	**1.4***	**2.7**	**61.3**	**5.6***
1998(forecast)	**1.7**	**2.5**	**61.2**	

* February 1997 to January 1998
Source: Commission and EMI, Convergence reports, March 1998

Germany has met the nominal convergence criteria as set out in Table 1. It has thus clearly fulfilled the criteria relating to inflation, the long-term interest rate and the budget deficit. The debt in terms of GDP, on the other hand, exceeded the reference value of 60% and continued to rise in 1997. The debt criterion can only be regarded as fulfilled where *'... the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace'* (Article 104c(2)(b)).

(a) Price stability

The price stability criterion is defined in the first indent of Article 109j(1): *'the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability'.*

In Protocol 6 on the convergence criteria the provisions of Article 109j(1) are more precisely defined; according to Article 1, the convergence criterion for the development of price levels in a Member State is met when it *'has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1½ percentage points that of, at most, the three best performing Member States in terms of price stability. Inflation shall be measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions'.*

In judging price stability and the convergence of inflation rates in the Member States, the Commission took as its basis the recently available harmonized consumer price indices (HCPIs), which provide a more reliable and more easily compared basis for assessment than the national consumer price indices. In its report it uses the following operational definitions: the average annual inflation rate of the individual Member States was measured as the percentage change in average HCPI over the past twelve months in relation to the average index in the previous months. The reference value was calculated for the purposes of this report as the simple arithmetical mean of the average inflation rates of the three best-performing Member States in terms of price stability plus 1.5 percentage points.

Table 2: Inflation (measured by the % change in HCPI)

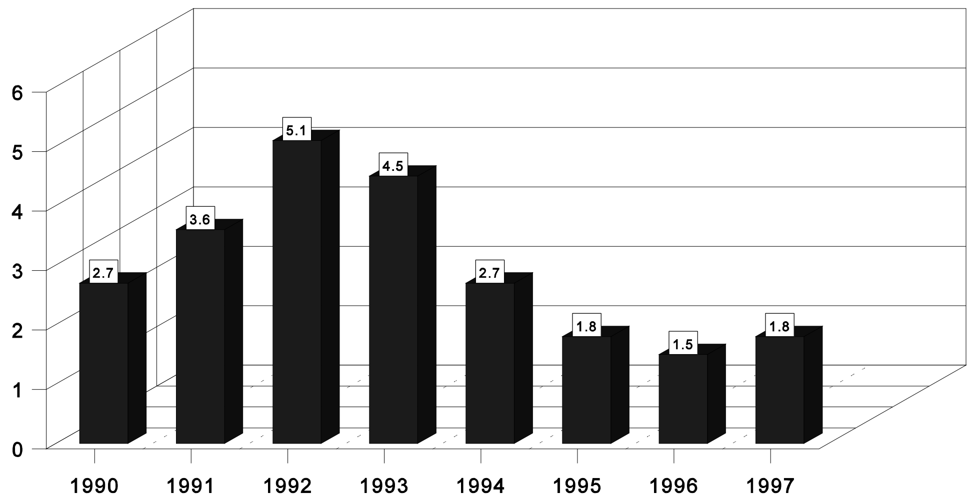
	1996	1997	Nov 97	Dec 97	Jan 98	**Feb 97 - Jan 98**
HCPI inflation *Reference value*	1.2 2.5	1.5 2.7	1.4 -	1.4 -	0.8 -	1.4 2.7

Source: EMI, Convergence report, March 1998

In the twelve-month period from February 1997 to January 1998 price stability in Germany was high. The average German inflation rate was around 1.4% and thus well below the reference value of 2.7%. This is also true of 1997 as a whole. In 1996 average HCPI inflation was 1.2% (see Table 2). Since December 1996, the period over which a reference value was to be calculated, Germany has always fulfilled the inflation criterion.

Since the HCPI periodical statistics cover only a limited time span, the most recent inflation developments cannot be analysed in the medium term. In assessing price level developments in the second stage of EMU, therefore, the consumer price index is used to analyse medium-term developments. Looking back, it can be seen that inflation in Germany measured in this way has followed a declining trend since 1992, having at first risen in the early nineties in the wake of unification (Figure 1). After its highest level of 5.1% in 1992, inflation fell steadily in the years that followed and fell below 2% in 1995 and thereafter.

Figure 1: National consumer price index (annual change in %)



Source: EMI, Convergence report, March 1998

b) Budget deficits

According to Article 109j(1), second indent, the fulfilment of the criterion relating to the sustainability of the government financial position *'... will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 104c(6)'.* Article 2 of Protocol 6 states further that *'The criterion on the government budgetary position referred to in the second indent of Article 109j(1) of this Treaty shall mean that at the time of the examination the Member State is not the subject of a Council decision under Article 104c(6) of this Treaty that an excessive deficit exists'.*

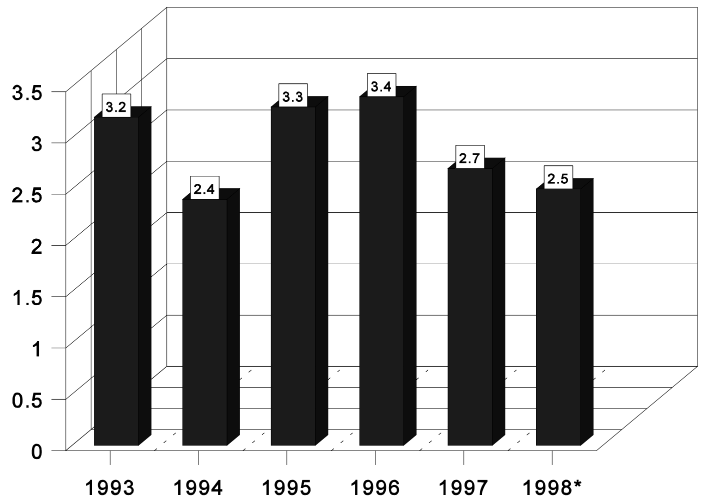
According to Article 104c(2), the Commission is to monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular, it is to examine compliance with budgetary discipline on the basis of two criteria: the government deficit ratio and the government debt ratio.

The deficit criterion is definitely fulfilled when the government deficit ratio in both the 'current' (in this assessment, 1997) and the 'projected' (1998) year does not exceed the reference value of 3% of GDP. However, the deficit criterion can nevertheless be fulfilled in cases where the deficit ratio is in excess of the reference value provided that, in accordance with Article 104c(2)(a):

'- *either the ratio has declined substantially and continuously and reached a level that comes close to the reference value;*
- *or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value'.*

Compared with most other Member States, Germany's budgetary situation was relatively favourable at the beginning of the second stage. Despite the recession the government deficit was only 3.2% of GDP in 1993, and in 1994, with a deficit that fell to 2.4% of GDP, budgetary trends even turned out to be better than expected. However, in 1995 and 1996 the budgetary situation worsened, with a deficit of 3.3% of GDP in 1995 and 3.4% of GDP in 1996, thus exceeding the values originally forecast by the government (Figure 2).

Figure 2: Government deficits (for the whole country as a % of GDP)



* Spring 1998 Economic forecasts
Source: *Commission, Convergence report, March 1998*

Tax revenue was overestimated on several occasions in 1995 and 1996, because nominal growth in GDP was smaller than expected in both of those years. Also, repeated revisions of a number of tax regulations in the years preceding had made it more difficult to forecast tax revenue. In 1995 there was an unexpected drop in the social security balance, while the continuing deterioration in the financial balance for the country as a whole in 1996 was almost entirely attributable to Germany's higher budget deficit.

The deterioration in the budgetary situation did not continue in 1997, when the deficit was reduced to 2.7% of GDP. Budget expenditure was particularly well under control in 1997: spending in the social security area and on staff and administrative costs in the public sector practically stabilized, and transfers to businesses and government investment were further reduced. Halfway through the year a budget freeze was decided - increasing the Finance Minister's control over large items of expenditure -, which was intensified towards the end of the year. The sharp rise in unemployment in 1997 obviously had a less serious effect on the deficit than expected, since it resulted partly from the lower take-up of government-funded employment policy measures in the new Länder. Interest payments on the special funds to administer the debts arising from unification - such as the *'German Unity Fund'* and the *'Debt Redemption Fund'* - were also lower than expected. Again, however, there were considerable unforeseen drops in revenue, partly attributable to the unexpectedly high take-up of tax relief by private individuals and firms.

In the greater part of the assessment period cyclical conditions had a negative effect on the government deficit. But the clear deterioration in the deficit ratio in 1995 was only to a limited extent the result of the worsening economic situation. The downward trend in the government deficit from 1996 to 1997 was attributable more to a discretionary, restrictive budgetary policy, as the influence of the economic situation on the budget remained practically unchanged.

In order to bring the national accounts into line with the ESA-1979 rules, the public hospitals were removed statistically from the public sector in 1997, so that the government deficit in both 1996 and 1997 was able to be revised downwards by about 0.1 percentage points of GDP in each year, and by even more in the preceding years.

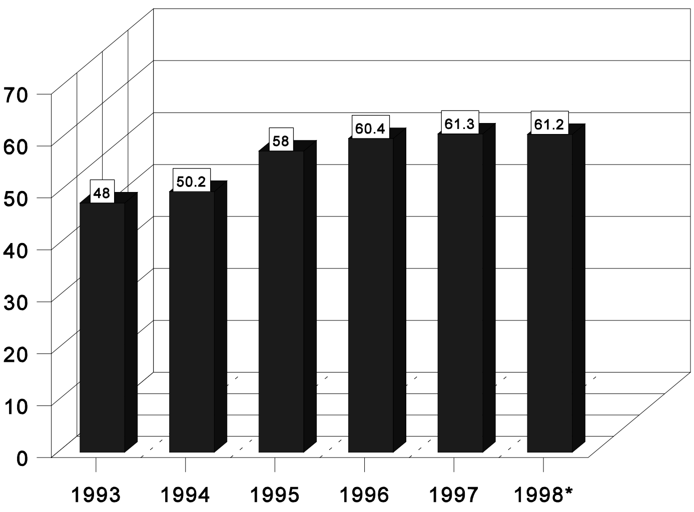
According to the Commission's forecasts, the deficit will fall further to 2.5% of GDP in 1998. Transfers to firms and government investments should stay under control, while transfers to private households and state consumption could rise slightly. The normal VAT rate was increased in April from 15% to 16% - the yield from this is to be used to cover shortfalls in state pension schemes. The consequences of the solidarity supplement's being cut from 7.5% to 5.5% should not be great. The cyclically adjusted deficit will continue to be lower than the actual deficit in 1998.

In the revised German convergence programme presented in January 1997 a further gradual reduction in the government deficit in the period from 1998 to 2000, bringing it to 1.5% of GDP by the year 2000, was forecast. The budget strategy pursued by the government - as set out in the programme - consists in a lowering of the expenditure, tax and social security contribution ratios and a simultaneous reduction in the government deficit. The aim is to lower the rate of expenditure to the pre-unification level of 46% of GDP by the year 2000. In order to achieve this, growth in nominal expenditure for the country as a whole is to be kept at least 2 percentage points below the projected nominal growth in GDP. Since 1995, incidentally, the deficit ratio has always been higher than government investment expenditure.

(c) Government debt

Respect of the debt criterion is clear in cases where the debt ratio does not exceed the reference value of 60% of GDP. The debt criterion may also be satisfied in cases where the debt ratio exceeds the reference value but it is judged in accordance with Article 104c(2)(b) that *'... the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace'.*

Figure 3: State of government debt
(consolidated gross debt for the whole country in % of GDP)



*Spring 1998 economic forecasts
Source: Commission, Convergence report, March 1998

The government debt ratio increased by more than 13 percentage points over the period 1993-1997 - from 48% of GDP in 1993 to 61.3% of GDP in 1997 (figure 3). A major part of this debt increase is due to the take-over by the government of the debt of the German railways in 1994 - amounting to 2.0% of GDP - and to the assumption of the unification-related debts from the *Treuhandanstalt* and the eastern housing companies in 1995 amounting to 6.6% of GDP.

Table 3: Government debt dynamics (as % of GDP)

	1993	1994	1995	1996	1997	1998*
Change in debt ratio**:**	3.9	2.2	7.8	2.4	0.8	-0.1
- Contribution of primary balance	-0.1	-1.0	-0.5	-0.3	-1.1	-1.2
- Interest and nominal GDP growth contribution	2.1	1.0	1.9	2.3	2.1	1.5
- Stock-flow adjustment	1.9	2.2	6.4	0.4	-0.1	-0.4
Government debt ratio	48.0	50.2	58.0	60.4	61.3	61.2

* Spring 1998 economic forecasts
Source: Commission, Convergence Report, March 1998

The increase of the debt ratio is expected to be reversed in 1998; the debt ratio is forecast by the Commission services to be reduced by 0.1 percentage points to 61.2% of GDP in 1998. The convergence programme submitted in January 1997 projected the government debt ratio to decline marginally but to still be slightly above the 60% of GDP threshold by the year 2000. The analysis of the debt dynamic in the Commission's Convergence Report shows that the German debt ratio will fall below 60% in the year 2000 (see Table 4).

Table 4: Sustainability of debt trends

Government debt ration in 1997 (as % of GDP)	Change in debt ration 1996-97 (as % of GDP)	Actual primary balance in 1997 (as % of GDP)	Debt stabilising primary balance in 1997 (as % of GDP)	Debt stability gap* in 1997 (as % of GDP)	Number of years needed to bring the debt ratio below 60% of GDP**	Year when the debt ratio falls below 60% of GDP**
61.3	0.8	1.1	2.1	1.0	4	2001

* A negative sign means that the actual primary balance is sufficiently large to bring down the debt ratio in 1997. The stock-flow adjustment is not taken into account for these calculations.
**The calculations have been made as follows: Spring 1998 economic forecasts for the debt ratio until 1999 and projections thereafter, fixing interest rates on government debt at a common level of 6%, inflation rates at 2%, stock-flow adjustments at zero and keeping real GDP trend growth rates and primary balances constant at the levels forecast for each Member State in 1999.
Source: Commission, Convergence Report, March 1998.

As the EMI warns in its Convergence Report, a considerable improvement in the deficit ratio and continued consolidation are urgently needed, not only with a view to the medium-term objective of the stability and growth pact which will be in force from 1999, which presupposes an almost balanced or a surplus budget, but also against the background of a worsening demographic situation in the opening decades of the new century. The ratio of people over 65 to the population between 15 and 64 will rise from 23.8% in 2000 to 49.2% in 2030, resulting in growing budgetary obligations in the form of pension payments.

The exceptional event of German unification in 1990 continues to have profound effects not only on the German economy but also on the government budgetary position. Transfers of financial resources from the old to the new Länder continue to impose a heavy burden on the government budget: net transfers amounted to around 4% of GDP per year over the period 1991-97. Interest payments on the unification-related debts also had a significant negative effect on the government deficit - amounting to around 0.6% of GDP in 1997 - and, in turn, led to a higher government debt ratio than would otherwise have been the case. These budgetary costs of unification explain the government deficits which occurred during recent years. In addition, without inclusion of unification-related liabilities, the German debt ratio would have remained well below the 60% of GDP reference value.

Despite the continuing heavy burden on the budget resulting from the exceptional circumstances of German unification, the government deficit in Germany was reduced in 1997 below the reference value. A further decline in the deficit is expected in 1998. The government debt ratio has been rising during the second stage and surpassed the 60% of GDP reference value in 1996. The debt ratio continued to rise in 1997 but at a decelerating pace and exceeded the 60% of GDP reference value only by a small amount. The debt ratio is forecast to decline in 1998 and is expected to return below the reference value soon. In view of these developments, the Commission considers that the excessive deficit situation has been corrected and that an excessive deficit no longer exists in Germany. The Commission is therefore recommending to the Council the abrogation of the decision on the existence of an excessive deficit for Germany.

(d) Participation in the exchange rate mechanism

The third indent of Article 109j(1) of the Treaty refers to the exchange rate criterion as *'the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the currency of any other Member State'.*

Article 3 of Protocol 6 specifies that:

'The criterion on participation in the exchange-rate mechanism of the European Monetary System referred to in the third indent of Article 109j(1) of the Treaty shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against any other Member State's currency on its own initiative for the same period'.

The operational framework used by the Commission, whereby participation in the exchange-rate mechanism (ERM) during at least the two-year period before the examination is judged and the behaviour of the currency assessed, lays down the two-year period from March 1996 to February 1998 as the period to be considered. The behaviour of a currency within the ERM is examined with respect to the benchmark of the median currency within the ERM grid. The exchange rate variability of a currency is measured on the basis of a +/- 2.25% fluctuation rate around its central rate against the median currency. This range, while corresponding to the original narrow fluctuation margins of the ERM, allows for deviations greater than 2.25% against the exchange rates of the other ERM currencies. The use of the median currency thus seems *'to correspond best to the way in which the ERM operates following the introduction of fluctuation margins of +/- 15% in 1993'.*

Conditions in the EMS have been generally quite stable in the period from March 1996 to February 1998. The majority of Community currencies have traded in narrow ranges against each other. The DEM has been participating in the ERM since 13 March 1978, i.e. for much longer than two years prior to the examination. Table 5 shows that the DEM experienced low and diminishing volatility in the review period. It traded within a margin of between +0.34 and -0.46% of its central parity against the median currency in the grid, at no time exceeding the +/-2.25% range. During the reference period Germany has not devalued its currency's bilateral central rate against any other Member State's currency. The DEM has thus fulfilled the exchange rate criterion.

Table 5: Spread of the DEM against median currency

(March 1996 - February 1998, daily data)

Average (%)	**Average of absolute values (%)**	**Maximum (%)**	**Minimum (%)**	**Standard deviation**	**Days < - 2.25%**

-0.13	0.14	0.34	-0.46	0.12	0

Source: *Commission, Convergence Report, March 1998*

(e) Long-term interest rates

The fourth indent of Article 109j(1) of the Treaty refers to: *the durability of convergence achieved by the Member State and of its participation in the exchange-rate mechanism of the European Monetary System being reflected in the long-term interest-rate levels'.*

Article 4 of Protocol 6 on the convergence criteria elaborates further, stating that:

'The criterion on the convergence of interest rates ... shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions'.

Table 6: Long-term interest rates (percentages)

	1996	1997	Nov 97	Dec 97	Jan 98	**Feb 97 - Jan 98**
Long-term interest rate	6.2	5.6	5.6	5.3	5.1	5.6
Reference value	9.1	8.0	-	-	-	7.8

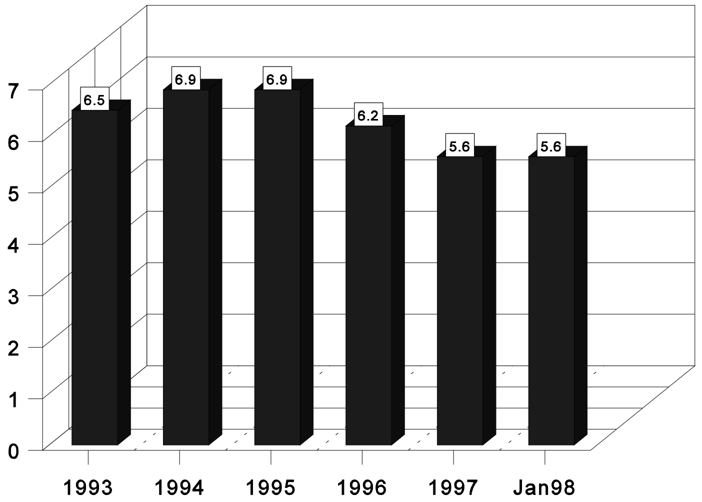
Source: EMI Convergence Report, March 1998

Over the reference period from February 1997 to January 1998 long-term interest rates in Germany were 5.6% on average, and thus stood well below the reference value for the interest rate criterion of 7.8% set on the basis of the three best-performing Member States in terms of price stability. This was also the case in 1997 as a whole, as well as for 1996 (see Table 6).

Table 4 shows the development of long-term interest rates since the early nineties. For this period a narrow and typically negative gap can be observed between German long-term interest rates and those prevailing in the EU countries with the lowest bond yields. The main factors underlying this trend were that the inflationary impulse following German unification was contained and that inflation returned to a comparatively low rate.

Figure 4: Development of long-term interest rates
(12-month averages)

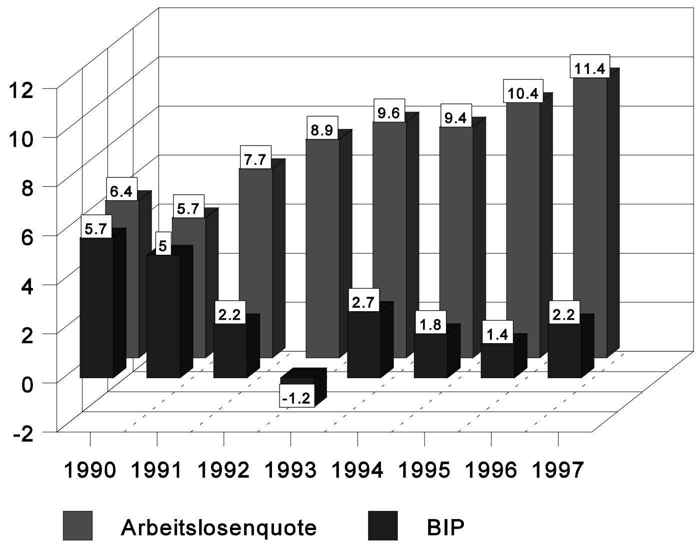
* Average of February 1997 - January 1998
Source: *Commission, Convergence Report, March 1998*



(f) Economic growth, unemployment and the current account balance

The EMI concedes in its convergence report that Germany has made efforts to increase the flexibility of the economy, including the labour markets. Unemployment nevertheless remained at a high level. After the economic decline of 1993, when output fell by 1 percentage point, there was a recovery in economic growth, which last year stood at 2.2% (see Figure 5).

Figure 5: real economic growth and unemployment rates (as %)



Source: EMI Convergence Report, March 1998

In 1991 the German current account went into deficit as a result of unification. These deficits have recently become smaller, slowing down the deterioration in the net foreign assets situation.

Table 7: Current account of the balance of payments (as % of GDP)

1993	1994	1995	1996	1997	1998*
-1.1	**-1.5**	**-1.4**	**-1.2**	**-0.6**	**0.1**

* Spring 1998 economic forecasts
Source: Commission Convergence Report, March 1998

II. Legislative convergence

(a) Scope of necessary adaptation of national legislation

According to the second sentence of Article 109j(1) of the Treaty, the report drawn up under this Article *'shall include an examination of the compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 107 and 108 of this Treaty and the Statute of the ESCB'.* Compatibility must be achieved with reference in particular to the objectives of national central banks (NCBs), their independence and the provisions relating to the integration of the NCB in the ESCB and other legislation. The Member States must harmonize their domestic legal provisions by the date of the establishment of the European Central Bank (ECB) at the latest.

(b) Overview and legislative action taken since 1994

The legal provisions governing the central bank of Germany are set out in the Bundesbank Act of 1957 and its Statute of 1958 as amended. The Bundesbank Act already ensured a comparatively high level of independence for the German central bank at the start of Stage Two of EMU.

The core provisions of the Act of 1957 are: the primary objective of the Bank is to safeguard the currency; the Bank is independent of instructions from the government in carrying out its tasks. Decisions on monetary policy have up to now been taken by the Central Bank Council, which consists of the President and the Deputy President of the Bank, up to six other members of the Directorate and the Presidents of the Land Central Banks.

In preparation for EMU the Bundesbank Act was amended by the 6th Act amending the Bundesbank Act in December 1997. This Act covers the following areas:

Objectives

The tasks and objectives of the Bank were adapted by a revision of Section 3 to state that *'The Deutsche Bundesbank ... shall participate in the fulfilment of its* (the ESCB's) *tasks with the primary objective of maintaining price stability...'.*

Section 12 providing for the support of the Bank to the general economic policy of the government was amended to take account of the fact that such support can only be given as far as this is compatible with the Bank's tasks as an integral part of the ESCB.

Independence

The minimum term of office for the President and other members of the Central Bank Council has been extended to five years. The possibility for the government to defer the decisions by the Central Bank Council for two weeks has been repealed.

Integration in the ESCB and other legislation

Section 6 was amended to state that the Central Bank Council must act in accordance with the guidelines and instructions of the ECB when assuming ESCB-related tasks.

The provisions on the Bank's power to fix interest rates in monetary policy operation and to impose minimum reserves were repealed. The provisions on the issuing of bank notes and participation in international institutions were amended to reflect the ECB's prerogatives in these areas.

Timing

The 6th Act amending the Bundesbank Act will come into force on the date from which Germany participates in Stage 3 of EMU pursuant to Article 109j of the Treaty. However, the provisions relating to the independence of the Bank became effective on the day following its promulgation, i.e. on 30 December 1997.

(c) Assessment of compatibility

Legislation in Germany is compatible with the requirements of the Treaty and the ESCB Statute.

III. The political background

(a) The 'euro petition'

On 12 January 1998 four professors - the constitutional lawyer Schachtschneider, the central banker Nölling and the economists Hankel and Starbatty - lodged a 352-page complaint and a request for an interim injunction with the German Constitutional Court. The plaintiffs claim infringement of their guarantee of ownership under Article 14(1) of the Basic Law. If the State - as in the case of the decision to join monetary union - should constitute the only cause of inflation, the guarantee of protection under Article 14 of the Basic Law would have been broken.

The Second Supreme Court rejected the complaint unanimously as being clearly groundless. The key sentence of the ruling reads:

> *'Germany's participation in monetary union is provided for under the Maastricht Treaty and authorized in principle by Article 23 and Article 88, sentence 2, of the Basic Law ... For the implementation of these legal provisions, particularly the decision regarding the States that will participate in monetary union, the Maastricht Treaty prescribes the criteria and the procedures for entry into the third phase of monetary union. In so doing it opens up areas of economic and political assessment and prognosis. This places responsibility for the guaranteeing of monetary ownership with the Federal Government and Parliament. The owner of money does not, however, gain the right to have the content of this decision, for which Parliament is jointly accountable, examined in the framework of a constitutional complaint'.*[1]

With this ruling the request for an interim injunction was also overruled. The arguments put forward in explanation included the following:

> *'The Federal Government, together with the Bundestag and the Bundesrat, in carrying out its task of participating in the shaping of monetary union as a stabilizing community of interests and hence meeting the requirements of Article 88(2) of the Basic Law, contributes also to the actual and legal safeguarding of monetary property and hence to the implementation of Article 14(1) of the Basic Law. The complainants misconstrue the scope of their constitutional rights in seeking under Article 14 of the Basic Law to require the politically accountable bodies to guarantee the stability of the European monetary union in a different way and to postpone the inception of this union. In so far as the Federal Government and Parliament are empowered to examine and assess economic data, to observe trends and assess their future implications, to make forecasts for individual applicant states and an overall prognosis of the stability of the planned monetary union, and finally to work jointly towards legal convergence in the Community and the legislation of the Member States, the*

[1] Constitutional Court, press release No 33/98, 2 April 1998.

decisions to be reached in this process cannot be judged in accordance with the individualizing criterion of a basic law. They are to be reached under the responsibility of the political bodies which are responsible for making overall judgments of general developments and which can examine and correct their own decisions in the light of developments as they occur'[2].

(b) The Federal Government

Since 1982 Germany has had a coalition government formed by the CDU/CSU and FDP parties and headed by Federal Chancellor Helmut Kohl (CDU). The Federal Government supports the introduction of a single European currency:

'This government will do everything it can to ensure that the euro is introduced at the agreed time and is a permanently stable currency.'[3]

The Chancellor goes so far as to link his future political fate to the introduction of the euro. He believes that the introduction of a single currency is also a decision which will determine the future, since monetary union will guarantee peace in Europe and create a European identity:

'Economic and Monetary Union is an important building block for a European peace order. A stable European currency can give the citizens of Europe a tangible sign of solidarity, since Europe needs symbols that give it an identity. The euro is the basis for a permanent safeguard of economic and thus, in the final analysis, political stability in Europe.'[4]

A number of economic advantages as well as political factors argue for the euro: completion of the internal market through the exclusion of the

'distortion of competition emanating from excessive exchange rate fluctuations, the end of exchange charges, improved price transparency, certainty in planning and calculation and stability.'[5]

In view of the concern about inflation and the anxiety in Germany the Federal Government is using all the means at its disposal to ensure the stability of the new currency. An example of this is the Stability and Growth Pact, which came into being on Germany's initiative.

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[2] Constitutional Court, press release No 33/98, 2 April 1998.

[3] See statement by the Federal Chancellor during the budget debate in the Bundestag on 10 September 1997.

[4] See on the Internet: http://www.bundesregierung.de/inland/umschau/1996/su96080501.html.

[5] See on the Internet: http://www.bundesregierung.de/inland/umschau/1996/su96080501.html.

The present German Finance Minister, Theo Waigel (CSU), sees the existing Treaties as providing a sufficient guarantee for a currency that will be as stable as the Deutsche Mark.[6] His State Secretary Jürgen Stark emphasizes the importance of the euro as

> *"a genuine alternative to the dollar as an international investment and reserve currency"*, and in this he sees *"Europe's strategic response to the globalization of the financial markets and to the growing economic linkages among the industrialized countries."*[7]

The euro is to be the Deutsche Mark of the 21st century.

Federal President Roman Herzog is also an advocate of the single currency. He agrees with Chancellor Kohl's analysis of the adverse consequences if monetary union were not completed. In an address to the European Parliament on 10 October 1995 he prophesied that this would result in competitive devaluation of currencies, deflation, trade wars, protectionism and renationalization.[8]

(c) The Bundesbank

On 27 March 1998 Bundesbank President Tietmeyer explained to the Cabinet in Bonn the attitude of the German Bundesbank to the convergence situation in the European Union. In its opinion entry into EMU on 1 January 1999 is justifiable in terms of stability policy. Some countries, however, had not yet succeeded in dealing with the considerable doubts surrounding the sustainability of their present financial situation. For this reason Belgium and Italy needed to make binding commitments to make further substantial improvements in their debt situation.[9]

The Bundesbank praises the progress already made towards convergence with respect to inflation rates, long-term interest rates and exchange rate stability. At the same time it notes that in some countries experience with low price increase rates is still of very short duration. It is to be hoped that a culture of stability would develop in those countries. It should also be borne in mind that the return of price rises had come about in some Member States against the background of high unemployment. Interest rate convergence had been speeded up to some extent by the market's expectations regarding participation by some countries.

Although budget deficits in most Member States had been lower than 3% in most Member States in the past few years, there was still considerable doubt in some countries about convergence being achieved. The Bundesbank points out in this connection that Italy and France, for

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[6] See http://www.europarl.de/euro/waigel.htm.

[7] See the address by Dr Jürgen Stark, State Secretary in the Federal Ministry of Finance, at the meeting of the bureau of the Group of the European People's Party, Santiago de Compostela, 27-29 August 1997.

[8] See http://www.europarl.de/euro/herzog.htm.

[9] *Frankfurter Allgemeine Zeitung*, 28 March 1998.

example, had only managed to reduce their budget deficits by a series of individual measures. The Bundesbank agrees in this respect with the European Monetary Institute, according to which Italy's deficit without these measures would have been approximately one percentage point, and France's 0.6 percentage points higher in 1997. Also, the drop in interest rates on the capital markets had made a decisive contribution to the fact that eleven countries had shown a budget deficit of less than 3% of GDP.

The Bundesbank also emphasizes in its position paper that only four countries lay beneath the reference value of 60% of GDP as regards their overall debt. It regrets the fact that these criteria, which it believes to be important, had played only a subordinate role in the discussion. It was important whether the debt ratio was sufficiently in decline and would come close to the reference value quickly enough. By that token the financial situation in Denmark, Finland, Ireland, Luxembourg and the United Kingdom could be described as sustainable in the long term. In Germany, France, the Netherlands, Austria, Sweden, Portugal and Spain, on the other hand, there was still a need for progress in adopting consolidation measures and, in many cases, for reform of the social security system. In the case of Belgium and Italy the progress towards convergence was insufficient to remove all doubt as to sustainability. As in Greece, the high rate of indebtedness in these countries represented a great burden and had an effect on the room for manoeuvre in financial policy. This represented a risk and a handicap for monetary union. In this respect the Bundesbank did not unreservedly support the Commission's proposal to begin monetary union with eleven participant countries.

(d) The Christian-Democratic Union (CDU)

Helmut Kohl's clear advocacy of EMU is very largely endorsed by his party. Kohl gives top priority to the completion of monetary union. In his speech to the *Bundestag* on 4 June 1997 he described EMU as an historic opportunity that should be seized: *'The opportunity that is now presenting itself will not occur again.'*[10] He warned against any delay in monetary union:

> *'The problems will not diminish if the timetable is now changed and this major decision is postponed.'*[11]

In the summer of 1997 it became apparent that views on EMU were divided within the CDU and also within its Bavarian sister party, the CSU. Although almost all CDU and CSU politicians are in principle in favour of the introduction of a stable, European single currency, there are differences of opinion primarily on the timetable and the importance of the convergence criteria. At the centre of the current debate lies the question whether the limit on new borrowings referred to in the Maastricht Treaty of 3% of gross domestic product means precisely 3.0% or whether any figure up to 3.5% would still comply with the Treaty. The Bavarian Prime Minister, Edmund Stoiber (CSU), insists on the validity of a 3.0% limit. Saxony's Prime Minister, Kurt Biedenkopf, is similarly opposed to the participation in the third stage of monetary union of any country failing to fulfil all the convergence criteria to the letter.

[10] See http://www.cdu.de/bpt/euro/hk_juni.html.

[11] See http://www.cdu.de/bpt/euro/hk_juni.html.

There are, of course, many reasons for these departures from the general party line. Some politicians are no doubt making tactical attempts to define their images more clearly (elections to the Bavarian Assembly are due to be held in the autumn of 1998, for example, and opposition to 'Bonn' always goes down well with many voters in independently minded Bavaria).

On the other hand, there are fundamental differences as regards the motivation and justification of EMU. Such politicians as Helmut Kohl, Wolfgang Schäuble (chairman of the CDU/CSU Group in the Bundestag), Heiner Geissler (vice-chairman of the CDU/CSU), Michael Glos (chairman of the CSU Land Group in the Bundestag) and Karl Lamers (the CDU's foreign policy spokesman) want EMU primarily on foreign policy grounds, to integrate Germany even more closely into the European Union:

> Karl Lamers: '*The euro is more than just a single currency... We need Europe as much as the air we breathe... Germany has a particular interest in deepening European unification and a particular responsibility in this respect, because ours is the largest European economy...*'[12]

> Heiner Geissler: '*The ceiling on new borrowings imposed by the Maastricht Treaty was 3%, and that is not the same as 3.0%. It is time everyone realized this... If the euro does not come on time, Europe's unification will also be postponed until the next generation.*'[13]

A position paper by Wolfgang Schäuble, Michael Glos, Rudolf Seiters and Karl Lamers states:

> '*Given its particularly extensive economic linkages, its situation and its history, Germany tends to have an even greater interest in this stability than its partners... Monetary union is, however, the institutionalization of such stability.*'[14]

Stoiber and Biedenkopf, on the other hand, stress the importance of a stable currency, which for them has priority over any foreign policy considerations. They therefore favour the beginning of the third stage of EMU with a few countries that fulfil the stability criteria and oppose a 'soft' (rather political) interpretation of the criteria.[15] Saxony's Prime Minister, Kurt Biedenkopf, has therefore suggested that the third stage of EMU should be postponed for five years.[16] The EU countries would then have more time and be able to demonstrate their ability to comply with the criteria in the long term:

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[12] See *Die Zeit*, 5 September 1997.

[13] See *Die Woche*, 4 July 1997.

[14] See *Handelsblatt*, 18 September 1997, and *Frankfurter Allgemeine Zeitung*, 12 September 1997; for an abridged version see *Frankfurter Allgemeine Zeitung*, 17 September 1997.

[15] See *Süddeutsche Zeitung*, 17 September 1997, 'Faszination Euro'.

[16] See *Süddeutsche Zeitung*, 28 September 1997.

'... the real danger lies in the subsequent failure of the single currency.'[17]

(e) The Christian-Social Union (CSU)

The CSU is the CDU's Bavarian sister party, the two parties forming a single political group (CDU/CSU) in the *Bundestag*. Wolfgang Schäuble is the chairman of the CDU/CSU Group, while Michael Glos is the leader of the Bavarian Land Group. Theo Waigel, who has been elected CSU chairman since 1988, is the Federal Minister of Finance. Like Michael Glos, he is considered to be a committed supporter of EMU. For almost 40 years the CSU alone has formed the government in Bavaria. It currently has an absolute majority in the Bavarian Land Assembly. The Bavarian Prime Minister, Edmund Stoiber, plays a special role in the debate on EMU. He attaches considerable importance to the euro being just as stable as the Deutsche Mark. For him this stability has priority over foreign policy factors, which might argue for the largest possible number of participants:

'I am accused of opposing Europe and not wanting this monetary union... The European Economic and Monetary Union is a great opportunity. But I also represent the man in the street... For him inflation is a disaster. For him stability is the most social of all social deeds. One percentage point of inflation costs the people 50 billion marks a year.'[18]

Edmund Stoiber therefore calls for a postponement of the third stage of EMU if Germany or France fails to fulfil the criteria to the letter[19]. The Bavarian Prime Minister is afraid that a 'soft' euro would do lasting damage to public confidence in the new currency and so be detrimental to the European Union's cause in the long term:

'We must interpret the criteria strictly and narrowly. That has priority over the timetable... Yes, I want Europe, but what worries me is that, if we set off on the wrong foot, there will be serious tension. We must avoid that at all costs. The goal is not 1999 but to ensure that monetary union is still working in 2010 or 2015.'[20]

(f) The Free Democratic Party (FDP)

The Free Democratic Party is the third party in the coalition, and one member of the Federal Government it provides is the Foreign Minister, Klaus Kinkel. Like his predecessor in this post for many years, Hans-Dietrich Genscher (FDP), Kinkel is a supporter of EMU:

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[17] See *Handelsblatt*, 1 October 1997.

[18] See *Focus*, 8 September 1997, p. 28.

[19] See *Süddeutsche Zeitung*, 24 August 1997 and 22 September 1997, and *Handelsblatt*, 22 September 1997.

[20] See *Süddeutsche Zeitung*, 8 October 1997; see also Edmund Stoiber, 'Standpunkt: Ein Sprengsatz für die europäische Integration, in: *Focus*, 28 July 1997, p. 58.

'The euro must and will be introduced punctually on 1 January 1999, in strict compliance with the stability criteria agreed in the Treaty... A delay might mean the end of the project. Nobody would then believe that we were really being serious when we made a second attempt.'[21]

Like many CDU politicians, Kinkel emphasizes the foreign policy factors that argue for EMU:

'As agreed in Maastricht, the euro must be introduced on 1 January 1999. It is not, after all, an end in itself, but Europe's main response to the growing together of the world economy on the eve of the 21st century... and the euro will come... the point of no return has been passed.[22]

(g) The Social Democratic Party of Germany (SPD)

The SPD was almost unanimous in its approval of the Maastricht Treaty in the *Bundestag* and *Bundesrat*. It endorses the completion of EMU in much the same way as the CDU. The foreign policy arguments for the euro predominate in the SPD.

In the motion on European policy tabled by the party leadership at the SPD conference held in Hanover in December 1997, which had been unanimously approved by the SPD party executive on 15 September 1997, the SPD declares its support for the punctual launch of the third stage of EMU:

'We want economic and monetary union... The SPD advocates the completion of the third stage of EMU, including the timetable, in accordance with the Treaty.'[23]

The chairman of the SPD and Prime Minister of the Saarland, Oskar Lafontaine, expects the euro to be launched on time:

'I regard the three-point-zero debate as German hysteria, with no foundation at all in economic policy. Monetary union will begin on 1 January 1999 as planned.'[24]

The chairman of the SPD Group in the *Bundestag*, Rudolf Scharping, emphasizes the importance of EMU for ongoing European integration:

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[21] See *Frankfurter Allgemeine Zeitung*, 5 September 1997.

[22] See the Article by the Federal Minister for Foreign Affairs, Dr Klaus Kinkel, for *Europäische Zeitung*, Bonn, May 1997 edition.

[23] See *Handelsblatt*, 24 September 1997; see also the complete text on the Internet: http//www.SPD.de.

[24] See *Focus*, 28 July 1997.

> *'The completion of Economic and Monetary Union in Europe is a cornerstone of ongoing European integration... It is essential if lasting peace is to be ensured in Europe.'*

In the same speech Scharping pressed for the punctual introduction of the euro:

> *'... if we intend to remain conscious of the commitment we have entered into, which we have ratified, making it binding in international law, we cannot pretend that the outcome of an election to a Land assembly, an opinion poll or anything else might cause us to depart from this course... The Social Democrats in Germany regard the single currency as a political project that goes beyond the internal market and will deepen European integration to such an extent that, in the interests of a peaceful and secure future for the whole continent, withdrawal is no longer possible.'*[25]

However, the position of the Prime Minister of Niedersachsen, Gerhard Schröder (SPD), is somewhat different. Following the Niedersachsen Landtag elections in March, he was chosen to as the SPD's candidate for Chancellor in the federal parliamentary elections.

Schröder might be described as a Euro-sceptic; but not as a person who says "no" to the euro. Rather than oppose the euro, he argues for strict adherence to the convergence criteria within the period laid down in the Maastricht Treaty, and for an independent European Central Bank. Mr. Schröder is also sceptical about the proposed "Euro-x" Council.. He shares the opinion of the German Federal Constitutional Court regarding the importance of "stability", and condemns any "creative accounting" by Member State governments.

In consequence, Schröder supports a monetary union with an initially restricted group of "core" Member States like Austria, Benelux, France and Germany (February 1997).

Schröder is also willing to accept a postponement of moving to Stage 3 of EMU until after January 1999, which he does not believe will lead Member States to fall back into more nationalistic policies like trade discrimination. The Prime Minister of Niedersachsen sees himself as a supporter of the idea of European Integration; but he does not support Economic and Monetary Union (EEMU) in any circumstances. He draws attention, for example, to the possibility of "wage-dumping" if a common currency is introduced, especially in the context of German incomes policy.[26]

Because the federal parliamentary elections in Germany will take place after the Euro participants are chosen in May 1998, the positions of possible SPD candidates for Chancellor will not be of decisive importance at that time. Most other SPD *Land* Prime Ministers, like the Prime Minister of Schleswig-Holstein, Heide Simonis, support compliance with the timetable:

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[25] See speech by the chairman of the SPD Group in the Bundestag, Rudolf Scharping, during the Bundestag's budget debate on 10 September 1997.

[26] N.N.: Ich will Europäer sein. Der niedersächsische Ministerpräsident (SPD) über die Risiken des Euro, interview in: Der Spiegel, 9/1997, p. 43-45.

'Those who delay now will not have the strength to try again later.'[27]

(h) Bündnis 90/Die Grünen

The Greens support the single currency primarily on economic grounds, but also as a means of deepening European integration.[28] Most members of the Green Group in the *Bundestag*, and especially its chairman, Joschka Fischer, favour the completion of EMU. Like the CDU/CSU, FDP and SPD, the Greens want to see EMU primarily for foreign policy reasons. Joschka Fischer therefore opposes the concentration of the debate on the fulfilment of the stability criteria to the letter:

> *'The Federal Government must be rebuked for forcing a new interpretation of the Maastricht Treaty on the German public for absolutely no reason, justified neither by the Maastricht Treaty nor by the economic trend in Germany or in neighbouring countries: from strict application to particularly strict application. If we take the particularly strict application, the Federal Republic of Germany does not at present satisfy some of the essential criteria.'*[29]

The Greens thus tend to favour a flexible interpretation of the criteria and would very much like to see EMU completed in compliance with the timetable.

(i) The Party of Democratic Socialism (PDS)

The PDS was the only party represented in the *Bundestag* to vote against the Maastricht Treaty in 1992. It is also likely to oppose the completion of EMU in the *Bundestag*'s final vote in 1998. The most important reason for this attitude is the democratic deficit which, according to the PDS, exists in the EU's institutions.[30]

(j) The debate in the universities

Opinions on EMU in the German universities are divided. Concern for the credibility of EMU has led to recommendations for both a punctual beginning and a delay. In the first half of 1997 criticism of the single currency predominated. This prompted Peter Bofinger, the Würzburg monetary expert, Claus Köhler, a member of the Council of Economic Experts, Lutz Hoffman,

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[27] See *Die Zeit*, 12 September 1997.

[28] See Kristin Heyne, Brief summary of the hearing on EMU on 29 April 1996, Bündnis 90/Die Grünen Group in the Bundestag.

[29] See speech by the Chairman of the Bündnis 90/Die Grünen Group in the Bundestag, Joschka Fischer, during the Bundestag's budget debate on 10 September 1997.

[30] See PDS, *Eine gemeinsame Beschäftigungs- und Sozialpolitik für die Europäische Union* (BT-Drucksache 13/4072), motion tabled by the PDS Group in the Bundestag, 12 March 1996.

President of the German Economic Research Institute, and Gerold Krause-Junk, chairman of the Scientific Advisory Council attached to the Federal Finance Ministry, to launch a pro-euro appeal. This appeal was signed by 58 German university professors, including the German Nobel Prize winner Reinhard Selten.[31]

According to these professors, there were no reasonable grounds for delaying the single European currency. In their view, the debate in Germany was far too emotional. The statute of the future European Central Bank conformed in an almost ideal fashion to the theoretical requirements that an independent central bank should meet, and inflation throughout the EU had never been lower. They saw no reason to dispute the desire of the potential members of monetary union for price stability.

The current 14 European currencies, said the professors, was an anachronism that should be removed as soon as possible. The euro should not be blocked because of such rigid deficit levels as the 3.0% ceiling, for which they saw no scientific justification.

On 9th February 1998, however, an open letter from 155 German-speaking professors of economics was simultaneous published in the *Frankfurter Allgemeine Zeitung* and the *Financial Times*. It called for an "orderly postponement" of EMU for "a couple of years". The signatories noted that:

> *"....the core countries have not succeeded in reducing deficits markedly and sustainably below the 3 per cent reference value. Moreover, the average debt ratio of the member states has not come down since 1991 but has risen by 15 percentage points. As a result, it now exceeds the 60 per cent reference value of the Maastricht Treaty by a large margin."*[32]

The professors also doubted the effectiveness of the Growth and Stability Pact; and observed that:

> *"The euro does not solve the unemployment problem of Europe..... The current state of economic affairs is most unsuitable for starting monetary union"*[33]

In the event of orderly postponement not being agreed, the convergence criteria should be applied "without any indulgence".

Other academics, however, see EMU in political rather than economic terms. Professor Beate Neuss of the University of Chemnitz, for example, has endorsed EMU for foreign policy reasons.

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[31] See *Süddeutsche Zeitung*, 26 August 1997, or the original version on the Internet: http://www.cdu.de/bpt/euro/stimmen/html.

[32] Wim Kösters; Manfred Neumann; Renate Ohr; Roland Vaubel; *Der Euro kommt zu früh*, in: *Frankfurter Allgemeine Zeitung* , 9 February 1998, p.l5.

[33] Wim Kösters; Manfred Neumann; Renate Ohr; Roland Vaubel; *Der Euro kommt zu früh*, in: *Frankfurter Allgemeine Zeitung* , 9 February 1998, p.l5.

'The political collapse that a delay would mean could hardly be made good either in the Franco-German relationship or on the German scene because, if we put ourselves in our neighbours' shoes, the situation looks like this: as requirements for monetary union, the Federal Government called for the adoption of detailed Treaty provisions and the creation of a European Central Bank along German lines. Hardly had this been done when it was being said in Bonn that the German people could have confidence in the new currency only if the European Central Bank was located in Frankfurt. That too was achieved. Then the currency could not be called the ecu because the ecu had a bad reputation in the minds of the Germans. The currency was christened the euro. Then the Maastricht Treaty, which was largely composed by the Germans where these aspects were concerned, was not enough: a Stability Pact also had to be negotiated... At Germany's request, the Dutchman Duisenberg will head the European Monetary Institute during the critical period while the euro is being introduced. Not even that was enough to satisfy the Germans' need for stability and a secure future. Now convergence of the philosophies of economics is also being demanded, and this in accordance with the German textbook. People must be gaining the impression that Germany's motto is: those who do NOT want to do something will find reasons for NOT having to do it.'[34]

(k) Trade and industry

The President of the German Industrial and Trade Association (DIHT), Hans Peter Stihl, advocates the punctual introduction of the new currency. In his view, the advantages of the euro outweigh the risks it entails:

'There will be no exchange rate risk, the certainty of calculations will rise, exchange costs will no longer occur, and payment transactions will be easier.'[35]

Two different assessments are to be found in the German business community: while the large multinational companies, such as BMW, Siemens and Allianz, welcome EMU and in some cases even use advertising campaigns to support it, small and medium-sized enterprises (SMEs) tend to oppose the euro. SMEs are particularly afraid of higher interest rates, which would have an adverse effect on their investments. They also feel that they have not been given enough information.[36] Large companies, on the other hand, borrow throughout the world. They are already busily preparing for the single currency by converting software in good time, for example. Some have installed separate planning units to gauge the effects of the euro.[37] The German retail trade believes EMU will cost them dear. The mere conversion of cash registers and scales and changes in pricing and administration are likely to cost DM 6.8 billion. In general, the

[34] See *Wirtschaftsdienst*, HWWA-Institut für Wirtschaftsforschung, 8 August 1997, Article by Professor Beate Neuss; see also *Handelsblatt*, 2 July 1997.

[35] See on the Internet: http://www.europarl.de/euro/stihl.de.

[36] See *Süddeutsche Zeitung*, 7 July 1997.

[37] For BMW, see *Frankfurter Allgemeine Zeitung*, 6.8.97; for Siemens, see *Die Zeit*, 18 .7.97

retail trade sees the euro as having few advantages, whereas the changeover will be very expensive.[38]

(l) The trade unions

The trade unions are in favour of the introduction of the euro at the time specified in the Treaty. Klaus Zwickel, chairman of the largest German trade union, IG Metall, has said:

> *'The euro is the right step; it must be introduced on 1 January 1999 as planned.'*[39]

However, IG Metall calls for a European employment policy to combat unemployment.

(m) The German banks

The German banks support EMU. Despite high changeover costs, they see the end to exchange rate fluctuations and currency risks as having major advantages. The President of the Federal Association of German Banks, Martin Kohlhaussen, believes the third stage will start on time:

> *'The punctual introduction of the European currency is a centenary project. Debates on the pros and cons of monetary union are confined to Germany. They are superfluous and making the people uncertain.'*[40]

In the preface to a special report by the Deutsche Bank entitled 'The euro, a stable currency for Europe', Ulrich Cartelli, a member of the Deutsche Bank board, writes:

> *'The euro is not an alternative to the Deutsche Mark but its future'*.[41]

In its study the Deutsche Bank assumes that the single currency is very unlikely to cause inflation. Like the large industrial companies, the banks are busily preparing for EMU. Dresdner Bank's Executive Manager and newly appointed Euro Coordinator, Volker Burghagen, estimates the changeover will cost his bank at least DM 250 million. Over a hundred of the bank's staff are already working on the changeover.[42]

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[38] See *Süddeutsche Zeitung*, 8.8.97, and *Frankfurter Allgemeine Zeitung*, 14.8.97.

[39] See *Frankfurter Allgemeine Zeitung*, 11.7.97.

[40] See *Die Welt*, 10.9.97, and Frankfurter Rundschau, 10.9.97.

[41] See *Frankfurter Allgemeine Zeitung*, 25.7.97.

[42] See *Frankfurter Allgemeine Zeitung*, 11 August 1997.