COMMISSION OF THE EUROPEAN COMMUNITIES

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EU

Recommendation for a

COUNCIL DECISION

on the existence of an excessive deficit in France - Application of Article 104(6) of the Treaty establishing the European Community

(presented by the Commission)

EXPLANATORY MEMORANDUM

According to the Commission, as published in its Spring 2003 forecasts based on the March 2003 reporting by the French authorities on deficit and debt data for 2002, the general government deficit in France amounted to 3.1 per cent of GDP. In 2002, the general government deficit therefore exceeded the reference value and increased substantially relative to the 2001 deficit (1.5 % of GDP). Based on this prima facie evidence, the Commission initiated the Excessive Deficit Procedure for France on 2 April 2003, with the adoption of the report foreseen in Article 104(3) of the Treaty. The application of the excessive deficit procedure (EDP) is governed by Article 104 of the Treaty and by Council Regulation N°1467/97 "on the speeding up and clarifying the implementation of the excessive deficit procedure", which is part of the Stability and Growth Pact. It is also affected by the political commitments enshrined in the Resolution of the Amsterdam European Council on the Stability and Growth Pact of 17 June 1997.

The Commission report according to Article 104(3) of the Treaty concluded that the excess of the French deficit in 2002 over the 3% of GDP Treaty reference value did not result from an unusual event outside the control of the French authorities, nor was it the result of a severe economic downturn in the sense of the Treaty, as real GDP growth reached 1.2% in 2002. Concerning developments in 2003, the report concluded that the general government deficit will very probably increase and therefore remain above 3% of GDP in 2003. The Commission is forecasting the 2003 general government deficit at 3.7% of GDP, which is above the 3.4% of GDP projected by the French authorities in the March reporting. Moreover, the Commission report, based on the Commission Spring forecasts, concluded that the debt-to-GDP will very likely breach the 60% reference value of the Treaty in 2003. According to the March 2003 reporting by the French authorities, the debt-to-GDP ratio in France is expected to rise from 59.1% of GDP in 2002 to 60.5% of GDP in 2003, while the Commission in its Spring forecasts projects the debt-to-GDP ratio at 61.8 per cent of GDP in 2003.

Article 104(4) of the Treaty states that "the Committee provided for in Article 114 (i.e. the Economic and Financial Committee) shall formulate an opinion on the report of the Commission". The Committee issued its opinion on 13 April 2003 (document EFC/ECFIN/151/03), subscribing to the assessment made by the Commission in its report. In particular, the EFC concluded that "budgetary developments in France in 2002 were such that the first criterion in the second paragraph of Article 104 is not respected." Consideration of other relevant factors, in particular the fact that the increase in the government deficit in 2002 is mostly due to a deterioration in the cyclically-adjusted balance and cannot be explained by an increase in the general government investment, supported the assessment based on this criterion. The EFC also considered as likely that the general government deficit exceeds the Treaty's reference value again in 2003, and that general government gross debt exceeds the Treaty's reference value of 60 percent of GDP in 2003.

The Commission, having examined the relevant factors taken into account in its report and having regard to the opinion of the EFC, is of the opinion that an excessive deficit exists in France. This opinion, adopted by the Commission on 7 May 2003, is herewith addressed to the Council, according to Article 104(5) of the Treaty. The Commission recommends that the Council shall decide accordingly, in conformity with Article 104(6). In addition, the Commission is submitting to the Council a recommendation for a Council recommendation to be addressed to France with a view to bringing the situation of an excessive government deficit to an end, according to Article 104(7) of the Treaty.

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THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission under article 104(6),

Having regard to the observations made by France,

Whereas:

(1) In stage three of Economic and Monetary Union (EMU), according to Article 104 of the Treaty Member States shall 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;

(3) The Amsterdam Resolution of the European Council on the Stability and Growth Pact of 17 June 1997 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 an timely manner;

(4) The excessive deficit procedure under article 104 provides for a decision on the existence of an excessive deficit; whereas the Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the excessive deficit procedure; whereas Council Regulation (EC) 3605/93[1] amended by Council Regulation (EC) 475/00[2] and by Commission Regulation (EC) 351/2002[3] lay down detailed rules and definitions for the application of the provision of the said Protocol;

(5) Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur; whereas the Commission has addressed such an opinion on France to the Council on 7 May 2003; whereas, according to this opinion:

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[1] OJ No L332, 31.12.1993, p.7.
[2] OJ No L 058, 3.03.2000, p. 1.
[3] OJ No L 055, 26.02.2002 p. 23.

- Following the publication by the Commission of the first notification on deficit and debt data for 2002, showing that the general government deficit in France reached 3.1% of GDP in that year, the Commission, in accordance with Article 104(3) of the Treaty, adopted on 2 April 2003 a report on France which takes account of the relevant factors;

- In accordance with Article 104(4) of the Treaty, the Economic and Financial Committee has formulated an opinion on the report of the Commission;

- The Commission considers that there exists an excessive deficit in France;

(6) Article 104(6) of the Treaty lays down that the Council should consider any observations which the Member State concerned may wish to make before the Council decides after an overall assessment whether an excessive deficit exists;

(7) The overall assessment leads to the following conclusions. The general government deficit reached 3.1% of GDP in 2002 in France. Although budgetary developments have been adversely affected by continued weakness in economic activity, the excess of the general government deficit over the 3% of GDP reference value does not result, in the sense of the Treaty, from an unusual event outside the control of the French authorities, nor it is the result of a severe economic downturn. According to Commission calculations, the deterioration in the 2002 budgetary position results mainly from a worsening in the cyclically-adjusted budgetary position. The breaching of the 3% of GDP threshold in 2002 is also rooted in the reversal of the budgetary consolidation process occurred since 1999, and is likely not to be temporary. Indeed, according to the French authorities and to the Commission Spring 2003 forecasts, the general government deficit will be above 3% of GDP also in 2003. Finally, the debt ratio will increase further in 2003, and will very likely breach the 60% of GDP Treaty reference value in that year.

HAS DECIDED AS FOLLOWS:

Article 1

From an overall assessment it follows that an excessive deficit exists in France.

Article 2

This decision is addressed to the French Republic.

Done at Brussels, 3 June 2003.

For the Council