COMMISSION OF THE EUROPEAN COMMUNITIES

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EU

Recommendation for a

COUNCIL RECOMMENDATION TO FRANCE

with a view to bringing an end to the situation of an excessive government deficit - Application of Article 104(7) of the Treaty

(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(7) thereof;

Having regard to the recommendation from the Commission under Article 104(7) and Article 104(13);

Whereas:

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

(4) The Council has decided, in accordance with Article 104 (6), that an excessive deficit exists in France;

(5) Having decided on the existence of an excessive deficit in France, the Council, in accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation EC 1467/97, shall adopt a Recommendation establishing a deadline of four months at the most for effective action to be taken by France to correct the excessive deficit position; whereas the Council shall establish a deadline of 3 October 2003 at the latest for the French government to take measures to bring the existence of an excessive deficit to an end within the deadline established by this Council Recommendation;

(6) Article 3(4) of Regulation EC 1467/97 requires that the Recommendation adopted by the Council in accordance with Article 104(7) also establishes a deadline for the correction of the excessive deficit, which should be completed in the year following its identification;

(7) In accordance with Article 104(12) of the Treaty, a Council decision under Article 104(6) on the existence of an excessive deficit will only be abrogated if the excessive deficit, in the view of the Council, has been corrected; whereas the Council will take

into account compliance with the recommendation made under Article 104(7) when taking decisions in accordance with Article 104(12);

(8) In January 2003, the Council adopted a recommendation sending an early warning to France in order to avoid the occurrence of an excessive deficit in 2003[1], in accordance with Article 99(4) of the Treaty and Article 6(2) of the Council regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies. In this recommendation, the Council stated that "the French government should take all the appropriate measures in order to ensure that the general government deficit does not breach the 3% of GDP threshold in 2003", and that "adopting measures apt to improve the cyclically-adjusted budgetary position by at least 0,5 percentage point of GDP would not only reduce the risk for the general government deficit to breach the 3% of GDP threshold in 2003, but also contribute to resuming a budgetary consolidation path towards a close to balance position as from 2003";

(9) In February 2003, the French authorities decided, in order to control State expenditure in 2003, to put in reserve €4 billion (0.25% of GDP) on the State budget, of which €1,44 billion (0.1% of GDP) were cancelled in March; whereas, when presenting their new official forecast in March 2003, the French authorities projected real GDP growth in 2003 at 1.3% and an improvement in the cyclically-adjusted general government balance by 0.1 percentage point of GDP in 2003; whereas, in the same forecast, the general government deficit in France for 2003 was projected to reach 3.4 per cent of GDP;

(10) In the view of the Council, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy.

HEREBY RECOMMENDS:

– the French authorities to put an end to the present excessive deficit situation as rapidly as possible and by 2004 at the latest, in accordance with Article 3(4) of Council Regulation (EC) No 1467/97. The Council establishes the deadline of 3 October 2003 for the French government to take measures to bring the excessive deficit to an end by 2004 at the latest;

– the French authorities to achieve a larger improvement in the cyclically-adjusted deficit in 2003 than currently planned, as recommended by the Council in January when sending early warning to France. To this aim, the Council considers that the French authorities should ensure a tighter control in expenditures in 2003. In addition, the Council recommends that France limits the increase in the general government gross debt to GDP ratio in 2003;

– the French authorities to implement measures ensuring that the cyclically-adjusted deficit is reduced in 2004 by 0.5 percentage point of GDP, or by a larger amount if needed to bring the general government deficit below 3% of GDP in 2004 at the latest. The Council also recommends that France ensures that the government debt ratio is brought back to a declining path in 2004.

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[1] OJ C 26, 4.2.2003.

In addition, the Council urges the French authorities to ensure that the budgetary consolidation continues in the years after 2004, namely through a reduction in the cyclically-adjusted budgetary deficit by at least 0.5 percentage point of GDP per year, in order to move decisively towards the medium term position of government finances close to balance or in surplus.

This recommendation is addressed to the French Republic.

Done at Brussels, […]

For the Council
The President
[…]