COUNCIL OF
THE EUROPEAN UNION

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LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject :	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

COUNCIL RECOMMENDATION TO FRANCE

of

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

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 pursuant to Article 104(7) and Article 104(13) of the Treaty, Whereas:

(1) In stage three of Economic and Monetary Union (EMU), Member States according to Article 104 of the Treaty are to 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 [1] 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.

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[1] OJ C 236, 2.8.1997, p. 1.

(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 Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure [1], is obliged to 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. The Council should 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) of the Treaty also establish 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. The Council will take into account compliance with this Recommendation when taking decisions in accordance with Article 104(12).

[1] OJ L 209, 2.8.1997, p. 6.

(8) On 21 January 2003, the Council adopted a Recommendation with a view to giving early warning to France in order to prevent the occurrence of an excessive deficit [1] in 2003, in accordance with Article 99(4) of the Treaty and Article 6(2) of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [2]. In that 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 further 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 EUR 4 billion (0,25% of GDP) on the State budget, of which EUR 1,44 billion (0,1% of GDP) were cancelled in March. Further, the French authorities decided, in order to control health expenditure, on several measures, such as a reduction in the reimbursement rate of some drugs of limited medical utility. 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. In the same forecast, the general government deficit in France for 2003 was projected to reach 3,4% of GDP.

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[1] OJ L 34, 11.2.2003, p. 18.
[2] OJ L 209, 2.8.1997, p. 1.

(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:

1. 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 appropriate measures to this end;

2. the French authorities to achieve a significantly larger improvement in the cyclically-adjusted deficit in 2003 than that currently planned;

3. the French authorities to implement measures ensuring that the cyclically-adjusted deficit is reduced in 2004 by 0,5% of GDP, or by a larger amount, so as to ensure that the cumulative improvement in 2003-2004 is enough to bring the nominal deficit below 3% in 2004 at the latest;

4. that France limits the increase in the general government gross debt to GDP ratio in 2003.

In addition, NOTES:

1. the commitment of the French authorities to ensure that the budgetary consolidation continues in the years after 2004 as reflected by the December 2002 update of the Stability Programme, 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 and bring back the debt ratio to a declining path;

2. the commitment of the French authorities to ensure a tighter control of expenditure in 2003;

AND WELCOMES the commitment of the French government to achieve the pension reform already in process to secure the long-term sustainability of public finances.

This Recommendation is addressed to the French Republic.

Done at Luxembourg,

For the Council
The President