COUNCIL OF
THE EUROPEAN UNION

Brussels, 27 November 2003

15272/03
EXT 3

LIMITE

PV/CONS 70
ECOFIN 377

EXTRACT OF THE DRAFT MINUTES

Subject : **2546th** meeting of the Council of the European Union (**ECONOMIC AND FINANCIAL AFFAIRS**), held in Brussels on 25 November 2003

7. **Implementation of the Stability and Growth Pact** (**restricted session**)
- **Excessive deficit procedure for France**
13467/03 ECOFIN 295 UEM 134 **EU-RESTRICTED**
14082/03 ECOFIN 315 UEM 138 **EU-RESTRICTED**

The Council took a vote on a Commission Recommendation for a Council Decision under Article 104(8) of the Treaty in respect of France.

With Belgium, Denmark, Greece, Spain, the Netherlands, Austria, Finland and Sweden voting in favour, the required majority for adopting the Decision was not achieved and the Decision was therefore not adopted.

The Council also took a vote on a Commission Recommendation for a Council Decision under Article 104(9) of the Treaty in respect of France.

With Belgium, Greece, Spain, the Netherlands, Austria and Finland voting in favour, the required majority for adopting the Decision was not achieved and the Decision was therefore not adopted.

The Council took a vote on the Council Conclusions set out below. With Belgium, Germany, Greece, Ireland, Italy, Luxembourg and Portugal voting in favour, the required majority for adopting the Conclusions was achieved and the Conclusions were therefore adopted.

"Council Conclusions on assessing the actions taken by France in response to recommendations of the Council according to Article 104(7) of the Treaty establishing the European Community and considering further measures for deficit reduction in order to remedy the situation of excessive deficit

1. In assessing the budgetary situation of France, the Council has taken several considerations into account, in particular:

   i. By Council Decision 2003/487/EC[1], it was decided, in accordance with Article 104(6) of the Treaty, that an excessive deficit existed in France.

   ii. In accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation (EC) No 1467/97, the Council sent a Recommendation to France on 3 June 2003 requesting France to take measures to bring the existence of an excessive deficit to an end in 2004 at the latest. The Recommendation was made public.

   iii. Several important economic and budgetary developments have taken place since the Spring 2003, which the Commission recommended to be taken into account: (i) the worsening in cyclical developments was abrupt and unexpected and made the effort to bring the deficit below 3% of GDP in 2004 much larger than expected in June 2003; the Spring Commission forecast expected a growth rate for France of 1.1% in 2003 and 2.3% in 2004; in Autumn the forecast was revised to 0.1% in 2003 and 1.7% in 2004; (ii) the cumulated loss of real GDP growth over the period 2003-2004 compared to what was expected in the Spring now amounts to about 1.5 percentage point; (iii) the budgetary plans for 2004 submitted to Parliament in September are targeted at a reduction in the cyclically-adjusted deficit of 0.7 percentage point of GDP, slightly more than the 0.5 recommended by the Council in June. Consideration was also given to the fact that the French government committed to implement in 2004 a structural reform of the health insurance, with the aim of curbing the dynamic of health expenditure, which constituted a major problem in controlling general government expenditure over the latest years.

[1] OJ L 165, 3.7.2003, p29.

iv. The argument stressed by the Commission, that too large a consolidation effort in one single year might prove economically costly, in particular in light of the downward revision of growth forecasts, should be given the appropriate relevance. On the basis of this argument, the Commission considered that the deadline which was set in June for the elimination of the excessive deficit in France should be extended by one year, provided that effective measures are taken by the French authorities as from 2004.

v. It is paramount that France moves rapidly towards a situation in which government finances are close to balance or in surplus. Such an underlying budgetary position must be achieved to ensure a rapid reduction in the debt to GDP ratio below the 60% of GDP reference value of the Treaty.

2. The Council noted that, following the Council Recommendation of 3 June 2003, France has adopted a number of structural measures, having an impact on 2003 and in the following years. The budget Law entails a reduction of the structural deficit in 2004 estimated at 0.7% of GDP.

3. The Council welcomes the public commitment by France to implement all the necessary measures to ensure that the deficit will be below 3% of GDP in 2005 at the latest.

4. In light of the Commission Recommendation and the commitments made by France, the Council recommends France to:

a) achieve in 2004 an annual reduction in the cyclically-adjusted deficit of 0.8 percent of GDP;

b) achieve in 2005 a reduction in the cyclically-adjusted deficit of at least 0.6 percent of GDP or a larger amount so as to ensure that the general government deficit is brought below 3 percent of GDP;

c) should the recovery in economic activity be stronger than currently expected, allocate any higher-than-expected revenue to deficit reduction and accelerate the reduction in the cyclically-adjusted deficit;

d) ensure that the budgetary consolidation continues in the years after 2005, namely through a steady reduction in the cyclically-adjusted budgetary deficit by at least 0.5 percentage point of GDP per year or more if necessary to achieve the medium term position of government finances close to balance or in surplus and bring back the debt ratio to a declining path;

e) outline a strategy consistent with these commitments and based on prudent macroeconomic assumptions in the Stability Programme to be updated by December 2003;

f) take into account the recommendations issued by the Council in the framework of the Broad Economic Policy Guidelines when implementing the measures to be taken in order to comply with the above commitments;

g) put an end to the present excessive deficit situation as rapidly as possible and at the latest by 2005.

5. In light of the recommendations and the commitments by France set out above, the Council decided not to act, at this point in time, on the basis of the Commission Recommendation for a Council decision under Article 104(9).

6. The Council agrees to hold the Excessive Deficit Procedure for France in abeyance for the time being. The Council stands ready to take a decision under Article 104(9), on the basis of the Commission Recommendation, should France fail to act in accordance with the commitments set out in these Conclusions as it would emerge from the assessment based on paragraph 7 below.

7. The Council invites France to regularly report on the progress made in fulfilling the commitments set out above, in particular in the context of the biannual notifications. In assessing the progress achieved, the Council and the Commission will give due attention to the prevailing economic conditions and to the structural reforms being implemented in France with a view to strengthening growth and ensuring the long term sustainability of public finances."

- **Excessive deficit procedure for Germany**

15039/03 ECOFIN 356 UEM 144 **EU-RESTRICTED**
15040/03 ECOFIN 357 UEM 145 **EU-RESTRICTED**

The Council took a vote on a Commission Recommendation for a Council Decision under Article 104(8) of the Treaty in respect of Germany.

With Belgium, Denmark, Greece, Spain, the Netherlands, Austria, Finland and Sweden voting in favour, the required majority for adopting the Decision was not achieved and the Decision was therefore not adopted.

The Council also took a vote on a Commission Recommendation for a Council Decision under Article 104(9) of the Treaty in respect of Germany.

With Belgium, Greece, Spain, the Netherlands, Austria and Finland voting in favour, the required majority for adopting the Decision was not achieved and the Decision was therefore not adopted.

The Council took a vote on the Council Conclusions set out below. With Belgium, Greece, France, Ireland, Italy, Luxembourg and Portugal voting in favour, the required majority for adopting the Conclusions was achieved and the Conclusions were therefore adopted.

“Council Conclusions on assessing the actions taken by Germany in response to recommendations of the Council according to Article 104(7) of the Treaty establishing the European Community and considering further measures for deficit reduction in order to remedy the situation of excessive deficit

1. In assessing the budgetary situation of Germany, the Council has taken several considerations into account, in particular:

   i. By Council Decision 2003/89/EC[1] it was decided, in accordance with Article 104(6) of the Treaty, that an excessive deficit existed in Germany.

   ii. In accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation (EC) No 1467/97, the Council sent a Recommendation to Germany on 21 January 2003 establishing the deadline of 21 May 2003 for Germany to take measures to bring the existence of an excessive deficit to an end as rapidly as possible. The Recommendation was made public.

   iii. On the basis of information available upon the expiry of the deadline of 21 May 2003, the policies announced by the German authorities satisfied the requirement of budget consolidation measures amounting to 1 % of GDP set out in the Recommendation of 21 January 2003.

   iv. Several important economic and budgetary developments have taken place since the Spring: (i) the worsening in cyclical developments was abrupt and unexpected and made the effort to bring the deficit below 3% of GDP in 2004 much larger than expected in May 2003; the Spring Commission forecast expected a growth rate for Germany of 0.4% in 2003 and 2.0% in 2004; in Autumn the forecast was revised to 0.0% in 2003 and 1.6% in 2004; (ii) the cumulative loss of real GDP growth over the period 2003-2004 compared to what was expected in the Spring now amounts to nearly 2 percentage point.

   v. The following arguments, which the Commission stressed, should be given the appropriate relevance: (i) too large a consolidation effort in one single year might prove economically costly in view of the prolonged stagnation in Germany over the last three years and the expected slow recovery; and (ii) government proposals for structural reforms would boost potential growth and reduce the deficit in the medium to long term.

1 OJ L 34, 11.2.2003, p. 16.

vi. Taking into account these factors, and in order to provide the conditions for a balanced correction, the Commission considered that it appears that the deadline set in January 2003 for the elimination of the excessive deficit in Germany should be extended by one year, provided that effective measures are taken by the German authorities as from 2004.

vii. It is paramount that Germany moves rapidly towards a situation in which government finances are close to balance or in surplus. Such an underlying budgetary position must be achieved to ensure a rapid reduction in the debt-to-GDP ratio below the reference value of 60% referred to in the Treaty.

2. The Council noted that, following the Council Recommendation of 21 January 2003, Germany has made a substantive adjustment adopting several measures, which have a total impact on government finances in 2003 that is estimated by the Commission to be 1 percent of GDP.

3. The Council welcomes the public commitment by Germany to implement all the necessary measures to ensure that the deficit will be below 3% of GDP in 2005 at the latest, on the basis of the GDP growth projections of the Commission.

4. In light of the Commission Recommendation and the commitments made by Germany, the Council recommends Germany to:

a) achieve in 2004 an annual reduction in the cyclically-adjusted deficit of 0.6 percent of GDP;

b) achieve in 2005 a reduction in the cyclically-adjusted deficit of at least 0.5 percent of GDP or a larger amount so as to ensure that the general government deficit is brought below 3 percent of GDP;

c) should the recovery in economic activity be stronger than currently expected, allocate any higher-than-expected revenue to deficit reduction and accelerate the reduction in the cyclically-adjusted deficit;

d) ensure that the budgetary consolidation continues in the years after 2005, namely through a steady reduction in the cyclically-adjusted budgetary deficit by at least 0.5 percentage point of GDP per year or more if necessary to achieve the medium term position of government finances close to balance or in surplus and bring back the debt ratio to a declining path;

e) outline a strategy consistent with these commitments and based on prudent macroeconomic assumptions in the Stability Programme to be updated by December 2003;

f) take into account the recommendations issued by the Council in the framework of the Broad Economic Policy Guidelines when implementing the measures to be taken in order to comply with the above commitments;

g) put an end to the present excessive deficit situation as rapidly as possible and at the latest by 2005.

5. In light of the recommendations and the commitments by Germany set out above, the Council decided not to act, at this point in time, on the basis of the Commission Recommendation for a Council decision under Article 104(9).

6. The Council agrees to hold the Excessive Deficit Procedure for Germany in abeyance for the time being. The Council stands ready to take a decision under Article 104(9), on the basis of the Commission Recommendation, should Germany fail to act in accordance with the commitments set out in these Conclusions as it would emerge from the assessment based on paragraph 7 below.

7. The Council invites Germany to regularly report on the progress made in fulfilling the commitments set out above, in particular in the context of the biannual notifications. In assessing the progress achieved, the Council and the Commission will give due attention to the prevailing economic conditions and to the structural reforms being implemented in Germany with a view to strengthening growth and ensuring long term sustainability of public finances."

o

o o

The Council adopted by unanimity the following Conclusions:

"The Council:

- confirms its strong commitment to sound public finances as a basis for strong economic growth and increased employment, in accordance with the conclusions of the European Council meeting of Spring 2003;
- recalls the central role played by the Stability and Growth Pact in ensuring an improvement in the overall budgetary situation in the EU, and encouraging the development by the Member States of sound and sustainable budgetary policies;
- reaffirms its commitment to the Stability and Growth Pact as the framework for the coordination of budgetary policies in the European Union with the particular objectives of achieving budgetary positions of close to balance or in surplus over the business cycle and public finances that are sustainable in the long term;
- will, to achieve these objectives, strengthen the monitoring of budgetary developments in the Member States in accordance with the surveillance procedures laid down by the Treaty and the Pact;
- reaffirms the determination to implement the provisions of the Stability and Growth Pact by ensuring equality of treatment across Member States and the role of the Commission in this area;
- will pay particular attention within the surveillance framework to the full and timely implementation of the firm commitments given by those Member States whose budgetary positions require significant improvement in order to meet the Pact's medium term objective;
- undertakes to strengthen the implementation of the Pact by reinforcing budgetary discipline over the cycle and fostering structural reforms aimed at increasing growth potential."

The Commission entered the following statement in the Council minutes:

"The Commission takes note of the rejection by the Council of the Commission recommendation under Article 104(8) for France and Germany, without giving the adequate explanation as laid down in the European Council Resolution on the Stability and Growth Pact. The Commission therefore considers that the Council recommendations based on Article 104(7) remain in force.

The Commission deeply regrets that the Council has not followed the spirit and the rules of the Treaty and the Stability and Growth Pact that were agreed unanimously by all Member States. Only a rule-based system can guarantee that commitments are enforced and that all Member States are treated equally.

The Commission will continue to apply the Treaty and reserves the right to examine the implications of these Council conclusions and decide on possible subsequent actions."