COUNCIL OPINION

of 17 February 2005

on the updated stability programme of France, 2004-2008

(2005/C 136/04)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to 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 ([1]), and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

(1) On 17 February 2005 the Council examined the updated stability programme of France, which covers the period 2004 to 2008. The programme broadly complies with the data requirements of the revised 'code of conduct on the content and format of stability and convergence programmes'. However, it does not provide projections for total employment growth according to the national accounts definition, which are compulsory. Accordingly, France is invited to achieve full compliance with the data requirements.

(2) The macroeconomic scenario underlying the programme envisages real GDP growth at 2.5 % from 2004 to 2008, a rate marginally above potential. On the basis of currently available information, this scenario seems to reflect plausible growth assumptions, although the Commission's projections for growth are slightly lower. The programme's projections for inflation also appear realistic.

(3) On 3 June 2003, the Council decided that an excessive deficit existed in France and recommended that this be corrected by 2004 at the latest. In its Communication to the Council on 'the situation of Germany and France in relation to their obligation under the excessive deficit procedure following the judgement of the Court of Justice' adopted on 14 December 2004 ([2]), the Commission concluded that 2005 should be considered the relevant deadline for the correction of the excessive deficit since the Council conclusions of November 2003 had produced legal effects until annulled by the Court. The primary aim of the budgetary strategy of the programme is to bring the deficit below 3 % of GDP by 2005. The programme is also aimed at ensuring a continuous decline in the general government deficit in the subsequent years. The deficit is projected to decline steadily by 0.6-0.7 percentage point of GDP per year from 2005 to reach a level of 0.9 % of GDP in 2008. Compared with the previous programme, the current update broadly confirms the planned adjustment against a slightly more favourable macroeconomic scenario. According to Commission calculations based on the projections of the programme and the commonly agreed methodology, the cyclically-adjusted balance would also improve by about 0.6-0.7 percentage point per year from 2005, and would reach -0.7 % of GDP in 2008. As in previous updates, the medium-term budgetary strategy is based on the setting of multi-annual targets for the increase in government expenditures in real terms that imply a reduction of the expenditure-to-GDP ratio notably as a consequence of the implementation of structural reforms.

([1]) OJ L 209, 2.8.1997, p. 1

([2]) Document COM(2004) 813 of 14 December 2004.

(4) Based on current information, measures taken by the French authorities should be sufficient to bring the deficit to 3 % of GDP in 2005. However, the budgetary situation in France remains vulnerable. Correction of the excessive deficit requires effective implementation of all the measures envisaged and of additional measures in the event of adverse developments. Moreover, since the projected decline of the deficit in 2005 stems notably from a one-off payment amounting to ½ % of GDP, the underlying budgetary adjustment projected for 2005 is relatively modest. In the years after 2005, the budgetary outcome could be worse than projected in the programme. In particular, the deficit objective for 2006 appears at risk under current policies, given that tax cuts are announced for that year and that major one-off revenues will vanish. Also since the expenditure targets in the previous updates were missed by a large margin, the expenditure as well as deficit targets set for the period 2006-2008 appear difficult to achieve under current policies. Structural reforms have been implemented (Loi Organique relative aux Lois de Finances, independent alert committee for governance of the health care system). These reforms constitute clear steps in the right direction and should contribute to the attainment of budgetary objectives.

(5) In view of this risk assessment, the budgetary stance in the programme does not seem to provide a sufficient safety margin against breaching the 3 % deficit threshold with normal macroeconomic fluctuations before 2007; nor is it sufficient to ensure that the Stability and Growth Pact's medium-term objective of a budgetary position of close to balance is achieved within the programme period.

(6) The debt ratio is estimated to have reached 64.8 % of GDP in 2004, above the 60 %-of-GDP Treaty reference value. The programme projects the debt ratio to decline from 2006 onwards and to reach 62 % of GDP in 2008. The evolution of the debt ratio is subject to the same risks as the deficit targets.

(7) With regard to the long-term sustainability of the public finances, France still appears to be at some risk. The implementation of major structural reforms of the pension and health systems in 2003 and 2004 respectively put it on a better footing. However, further efforts (additional budgetary consolidation and reforms) would be needed in the years ahead in order to ensure fully the sustainability of government finances.

(8) The economic policies as reflected in the 2004 update are partly consistent with the recommendations in the Broad Economic Policy Guidelines, specifically those with budgetary implications. France has implemented important structural reforms, notably concerning the health and pension systems, which place it in a better position to face the consequences of an ageing population. The cyclically-adjusted deficit in 2004 will be reduced by 0.4 % of GDP, lower than recommended. Nevertheless higher than expected State revenues were fully allocated to deficit reduction. As a whole, although significant, the medium-term adjustment planned in the 2004 update is subject to uncertainties, and will not fully lead to a close-to-balance budgetary position over the period covered by the programme.

In view of the above assessment, the Council is of the opinion that France should:

(i) do the necessary to ensure the correction of the excessive deficit in 2005;

(ii) make sure that the budgetary consolidation continues in the years after 2005 so as to reach a close to balance budgetary position in 2008; and

(iii) continue structural reforms and control expenditure in order to secure the respect of the multi-annual expenditure targets set in the programme.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	**SP Dec 2004**	**2,5**	**2,5**	**2,5**	**2,5**	**2,5**
	COM Oct 2004	2,4	2,2	2,2	n.a.	n.a.
	SP Dec 2003	*1,7*	*2,5*	*2,5*	*2,5*	*n.a.*
HICP inflation (%)	**SP Dec 2004**	**2,2**	**1,8**	**1,5**	**1,5**	**1,5**
	COM Oct 2004	2,3	2,0	1,8	n.a.	n.a.
	SP Dec 2003	*1,5*	*1,5*	*1,5*	*1,5*	*n.a.*
General government balance (% of GDP)	**SP Dec 2004**	**-3,6**	**-2,9**	**-2,2**	**-1,6**	**-0,9**
	COM Oct 2004	-3,7	-3,0	-3,3	n.a.	n.a.
	SP Dec 2003	*-3,55*	*-2,9*	*-2,2*	*-1,5*	*n.a.*
Primary balance (% of GDP)	**SP Dec 2004**	**-0,7**	**0,1**	**0,8**	**1,5**	**2,2**
	COM Oct 2004	-0,7	-0,1	-0,4	n.a.	n.a.
	SP Dec 2003	*-0,6*	*0,1*	*0,9*	*1,6*	*n.a.*
Cyclically-adjusted balance (% of GDP)	**SP Dec 2004** (1)	**-3,4**	**-2,7**	**-2,0**	**-1,4**	**-0,7**
	COM Oct 2004	-3,5	-2,8	-3,1	n.a.	n.a.
	SP Dec 2003 (1)	*-3,2*	*-2,6*	*-1,9*	*-1,3*	*n.a.*
Government gross debt (% of GDP)	**SP Dec 2004**	**64,8**	**65,0**	**64,6**	**63,6**	**62,0**
	COM Oct 2004	64,9	65,5	66,3	n.a.	n.a.
	SP Dec 2003	*62,8*	*63,2*	*62,8*	*61,8*	*n.a.*

Note:

(1) Commission services calculations on the basis of the information in the programme

Sources:

Stability programme; Commission services autumn 2004 economic forecast; Commission calculations