

COUNCIL RECOMMENDATION
of 21 January 2003

with a view to giving early warning to France in order to prevent the occurrence of an excessive deficit

(2003/90/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 99(4) thereof,

Having regard to the 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 6(2) thereof,

Having regard to the recommendation of the Commission,

Whereas:

- (1) Article 6(2) of Regulation (EC) No 1466/97, as part of the Stability and Growth Pact, establishes an early warning system for alerting a Member State at an early stage to the need to make the necessary budgetary adjustment to prevent a government deficit becoming excessive. An early warning should be given when the Council identifies actual or expected significant divergence of the budgetary position in a Member State from the medium-term budgetary objective, or the adjustment path towards it, set in the Member State's stability programme for the government balance.
- (2) In the Resolution on the Stability and Growth Pact adopted in Amsterdam on 17 June 1997 ⁽²⁾ the European Council invited all parties to implement the Treaty and the Stability and Growth Pact in a strict and timely manner.
- (3) In the 2001 updated stability programme of France, on which the Council delivered an opinion on 12 February 2002 ⁽³⁾, the French authorities aimed at a 1,4 % of GDP general government deficit in 2002 and 1,3 % of GDP in 2003. The projections for the 2002 general government deficit were rectified to 1,8 % of GDP in February by the French authorities, when they revised the projections for the 2002 real GDP growth from 2,5 % to 1,5 %.
- (4) The general government deficit in France in 2002 is now projected at 2,8 % of GDP by the French authorities and at 2,7 % of GDP by the Commission, thus 1,4 percentage point above the initial target set in the 2001 updated stability programme. According to Commission services calculations, less than one half, i.e. 0,5 percentage point of GDP, of the total slippage in the general government deficit in 2002 can be attributed to cyclical factors. The remaining part represents a deterioration in the cyclically-adjusted balance.

- (5) As a consequence of this slippage, the French budgetary position in 2002 is far from close to balance, in actual and cyclically-adjusted terms. Indeed, the cyclically-adjusted deficit is estimated by the Commission services to have increased from about 2 % of GDP in 2001 to 2,7 % of GDP in 2002. This level is clearly too high to ensure that the general government deficit does not breach the 3 % of GDP reference value under normal cyclical fluctuations.
- (6) The draft budget for 2003 presented in September projects a slight reduction in the general government deficit at 2,6 % of GDP, in the context of an expected acceleration in real GDP growth to 2,5 %. The Broad Economic Policy Guidelines for 2002 recommended that France should 'aim at a sufficient decline of the 2003 deficit to ensure that a close to balance position in 2004 can be achieved'. According to Commission calculations based on the French programme update, the cyclically-adjusted budgetary deficit will decline slightly by 0,2 % to 2,6 % in 2003.
- (7) Taking also into account significant downward risks surrounding the macroeconomic perspectives, the budgetary position foreseen in the 2003 draft budget is at a level which could lead to the occurrence of an excessive deficit, should the recovery be less pronounced than assumed in the budget or in case further slippage in the 2003 budget would occur. The Commission autumn forecasts project an increase in the general government deficit from 2,7 % in 2002 to 2,9 % of GDP in 2003, in a context where real GDP growth accelerates from 1,0 % in 2002 to 2,0 % in 2003.
- (8) In view of these elements, the risk for the general government deficit to breach the 3 % of GDP threshold has not been removed. Moreover, this divergence influences medium term commitments, as the attainment of a close to balance position is now postponed.
- (9) On the basis of information provided by the French authorities and of the assessments made by the Commission, the Council identifies a significant divergence in terms of Article 6(2) of Council Regulation (EC) No 1466/97.
- (10) There is a need for an early warning to be given alerting France in order to prevent the occurrence of an excessive deficit,

⁽¹⁾ OJ L 209, 2.8.1997, p. 1.

⁽²⁾ OJ C 236, 2.8.1997, p. 1.

⁽³⁾ OJ C 51, 26.2.2002, p. 4.

HEREBY RECOMMENDS:

1. 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.
2. 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.
3. Continuous adjustment in the underlying budgetary position by at least 0,5 % of GDP per year should be pursued also in subsequent years in order to achieve the medium-term budgetary position of close to balance or in surplus by 2006.

This Recommendation is addressed to the Republic of France.

Done at Brussels, 21 January 2003.

For the Council

The President

N. CHRISTODOULAKIS
