

COUNCIL DECISION

of 3 June 2008

abrogating Decision 2005/185/EC on the existence of an excessive deficit in the Czech Republic

(2008/563/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Council Decision 2005/185/EC ⁽¹⁾, following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in the Czech Republic. The Council noted that the general government deficit was 12,9 % of GDP in 2003 (5,9 % of GDP excluding a major one-off operation related to imputed state guarantees), well above the 3 % of GDP Treaty reference value.

(2) On 5 July 2004, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure ⁽²⁾, the Council made, based on a recommendation from the Commission, a recommendation addressed to the Czech Republic with a view to bringing the excessive deficit situation to an end by 2008 at the latest. The recommendation was made public.

(3) In view of the forecast of a marked budgetary slippage in 2007 and a continuing excess of the deficit over the reference value in 2008, the Council adopted a Decision under Article 104(8) on 10 July 2007, based on a recommendation from the Commission, stating that the action being taken by the Czech Republic did not appear to be adequate to correct the excessive deficit by the deadline of 2008 ⁽³⁾. On 10 October 2007, the Council issued a new recommendation under Article 104(7), based on a recommendation from the Commission, recommending the Czech Republic to further contain the budgetary deterioration in 2007 and reconfirming that the excessive deficit must be put to an end by 2008 at the latest, with a deadline of 9 April 2008 for the Czech authorities to take effective action. On the basis of the then available projections the Council invited the Czech authorities to ensure an

improvement in the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) of at least 0,75 % of GDP in 2008 compared to 2007.

(4) In accordance with Article 104(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(5) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the procedure. As part of the application of the Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community ⁽⁴⁾.

(6) Based on data provided by the Commission (Eurostat) in accordance with Article 8g(1) of Regulation (EC) No 3605/93 following the notification by the Czech Republic before 1 April 2008 and on the Commission services spring 2008 forecast, the following conclusions are warranted:

— the general government deficit was reduced from 2,7 % of GDP in 2006 to 1,6 % of GDP in 2007, which brings it below the 3 % of GDP deficit reference value before the deadline set by the Council. This compares with a target of 4 % of GDP in the March 2007 convergence programme,

— while tax revenues exceeded expectations due to higher-than-projected economic growth, the deficit reduction in 2007 was also the consequence of expenditure restraint, in particular with respect to the compensation of public sector employees and intermediate consumption. Most of the expenditure savings are of a permanent nature. The improvement in the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) is estimated at just above 0,5 % of GDP in 2007,

⁽¹⁾ OJ L 62, 9.3.2005, p. 20.

⁽²⁾ OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).

⁽³⁾ Decision 2007/640/EC (OJ L 260, 5.10.2007, p. 13).

⁽⁴⁾ OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

- for 2008, the spring 2008 forecast projects the deficit to be reduced further, to 1,4 % of GDP, driven by additional expenditure savings measures, legislative measures to reduce social expenditure and the introduction of partial health charges. Revenue as a percentage of GDP is expected to remain broadly constant as a result of a wide range of tax measures implemented in 2008. The spring forecast is in line with the deficit target of 1,5 % of GDP in the April fiscal notification. For 2009, the spring forecast projects, on a no-policy change assumption based on continued expenditure restraint, a further decline in the deficit to 1,1 % of GDP. This indicates that the deficit has been brought below the 3 % of GDP reference value in a credible and sustainable manner,
- the structural balance is projected to improve by about half of a percentage point of GDP in 2008 and again, on a no-policy-change assumption based on continued expenditure restraint, in 2009. This has to be seen against the need to speed up the achievement of the medium-term objective (MTO) for the budgetary position, which for the Czech Republic is a structural deficit of 1 % of GDP, as recommended in the March 2008 Council Opinion on the November 2007 update of the convergence programme,
- government debt remains well below the 60 % of GDP reference value. It declined from 29,4 % of GDP in 2006 to 28,7 % in 2007. According to the

spring 2008 forecast, the debt ratio is projected to fall further to below 28 % by the end of 2009 (on a no-policy-change basis).

- (7) In the view of the Council, the excessive deficit in the Czech Republic has been corrected and Decision 2005/185/EC should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in the Czech Republic has been corrected.

Article 2

Decision 2005/185/EC is hereby abrogated.

Article 3

This Decision is addressed to the Czech Republic.

Done at Luxembourg, 3 June 2008.

For the Council

The President

A. BAJUK
