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Commission assesses the 2000 update of the stability programme for France (2002-2004)

The European Commission today made a recommendation to the Council on the 2000 updated stability programme for France, which was presented on 11 January 2001 and covers the period 2001-2004. The conclusion of the Commission is that the updated programme is in line with the requirements of the Stability and Growth Pact. Strong macroeconomic performance made available important revenue margins and the government finances improved in 2000; the general government deficit declined to 1.4% of GDP, a level lower than was expected in the 1999 updated programme; a better budgetary outcome could have been possible in 2000 taking into account the favourable economic and public finances developments. During the same period, the government debt ratio is expected to continue to decline from 58.4% of GDP in 2000 to within the range 54.5% to 53% of GDP (excluding UMTS receipts). The government finances projections are based on two macroeconomic scenarios assuming two plausible estimates for potential growth (2.5% and 3%). The favourable scenario is presented as the economic policy objective and the most likely prospect. On the basis of the Commission recommendation, the Council is expected to adopt a formal opinion on the stability programme of France on [12 February 2001].

The Commission recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the Member States' stability programmes is an important element in the multilateral surveillance process. Given the continuous strengthening of economic policy co-ordination in the Union and the important spill over effects that economic policies in one Member State can have for the euro-zone as a whole, the Commission will put increasing emphasis in its analysis on the degree of ambition with which Member States plan to conduct their economic policies over the short and medium term. An assessment of how Member States plan to tackle budgetary consolidation and implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues included in our analysis."*

The Commission's main conclusions are the following.

- The updated stability programme of France is in line with the requirements of the Stability and Growth Pact.
- Recent structural reforms, market liberalisation measures and strong investment may have increased the potential growth of the French economy; it may be considered that the two macroeconomic scenarios provide a plausible range of values for GDP growth from 2002 to 2004.

- The higher than expected reduction in the government deficit in 2000 reflects primarily progress achieved in 1999: indeed, the pace of deficit reduction decelerated in 2000, despite higher than expected tax revenues. This mainly proceeded from the tax alleviation policy followed by the French authorities aimed at lowering the tax burden. This is not fully consistent with the recommendations of the 2000 Broad Economic Policy Guidelines which recommended that better than expected growth had to be used to reduce faster the government deficit.
- The government balance is projected to be move from a deficit of 1.0% of GDP in 2001 (excluding UMTS receipts) to a surplus of 0.2% of GDP in 2004 under the favourable economic scenario. The cornerstone of the French budgetary policy remains the binding norm for government spending in real terms; in the coming years, the margins thus created are to be allocated, according to the updated stability programme, in equal share to the deficit reduction and to tax alleviation; it must be noted that the French authorities have increased the part to be attributed to tax cuts when compared with the allocation rule implicit in the 1999 updated programme.
- A budgetary strategy based on expenditure norms is highly commendable but to be efficient it requires full compliance, avoiding recurrent adjustment of the norms.
- In fact, the expenditures included in the budget for 2001, planned to increase by 1.8% in real terms, already accounts for a significant share of the cumulated increase in expenditure, 4% in real terms, fixed as a norm in the 1999 updated programme for 2001-2003.
- Moreover, it must be noted that in order to accommodate faster than expected increase in expenditure, particularly in the health sector, the 2000 updated programme has raised this norm to 4.5% in real terms over the period 2002-2004.
- In a context of strong economic growth and given the planned tax alleviation policy, the French authorities should implement a more decisive control of government spending in order to make available margins for faster reduction in the government deficit. The Commission considers that even in the cautious macroeconomic scenario a balanced budget should be achieved by 2004.
- Any additional budgetary margins should be used, as a matter of priority, to strengthen the budgetary position and prepare for future challenges notably the budgetary burden from the ageing population.

The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries participating in the euro-zone to present stability programmes to the Council and the Commission. These programmes provide information on how countries intend to meet the objectives of the Pact and in particular the medium term goal of a budget close to balance or in surplus.

Key figures of the French stability programme

	2000	**2001**	**2002**	**2003**	**2004**
Real GDP growth (annual % change) (Alternative scenario)	3.2	3.0-3.6	3.0 (2.5)	3.0 (2.5)	3.0 (2.5)
Inflation (Consumption deflator)	1.7	1.2	1.4	1.4	1.4
Gen. Gov. budget balance (excluding UMTS receipts , as a % of GDP) (Alternative scenario)	-1.4 -1.4	-1.0 -1.0	-0.6 N.A.	-0.4 N.A.	+0.2 -0.5
Real Expenditures (% of GDP) (Alternative scenario)	53.0 53.0	52.1 52.1	51.4 N.A.	50.7 N.A.	49.8 50.6
Real Expenditures (annual % change)	1.0	1.8	1.6	1.5	1.3
Tax burden (% of GDP)	45.2	44.7	44.5	44.0	43.8
Government debt (excluding UMTS receipts , as a % du PIB) (Alternative scenario)	58.4 58.4	57.2 57.2	55.9 56.3	54.7 55.6	53.0 54.5