COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION OPINION

on the existence of an excessive deficit in Poland – Application of Article 104(5) of the Treaty establishing the European Community

EXPLANATORY MEMORANDUM

On 7 April 2004, the Commission published its Spring 2004 forecasts[1]. According to these forecasts, which took into consideration data reported by Poland in March 2004, the general government deficit in Poland increased from 3.6% of GDP in 2002[2] to 4.1% of GDP in 2003, thus exceeding the 3% of GDP Treaty reference value.

Based on this prima facie evidence, the Commission initiated the excessive deficit procedure for Poland on 12 May 2004, with the adoption of the report foreseen in Article 104(3) of the Treaty[3]. On 17 May 2004, the Commission received the convergence programme of Poland, which confirmed a deficit figure of 4.1% of GDP for 2003.

The application of the excessive deficit procedure (EDP) is governed by Article 104 of the Treaty and by Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure", which is part of the Stability and Growth Pact[4]. Countries that joined the EU on 1 May 2004 are Member States with a derogation and are to avoid excessive deficits, but sanctions according to Article 104 (9) and (11) cannot be imposed on them.

The Commission report according to Article 104(3) of the Treaty concluded that the excess of the Polish deficit in 2003 over the 3% of GDP Treaty reference value did not result from an unusual event outside the control of the Polish authorities, nor was it the result of a severe economic downturn in the sense of the Stability and Growth Pact, as real GDP growth reached 3.7% in 2003. Concerning developments in 2004, the report concluded that the general government deficit is likely to increase and remain above 3% of GDP. In particular, the Commission Spring 2004 forecasts are for a general government deficit of 6.0% of GDP in 2004, which is above the 5.7% of GDP projected by the Polish authorities in the convergence programme.

Based on the Commission Spring 2004 forecasts, the Commission report also concluded that the debt-to-GDP ratio, which had reached 45.4% of GDP in 2003, will continue to remain below the 60% reference value of the Treaty in 2004. In particular, the Commission Spring 2004 forecasts project the debt ratio to reach 49.1% of GDP in 2004, which corresponds to the 49% of GDP projected by the Polish authorities in the convergence programme. The deficit and the debt figures will have to be adjusted upward if the open pension funds are excluded from the general government sector following the EUROSTAT decision on the classification of the funded pension schemes.

Article 104(4) of the Treaty states that "the Committee provided for in Article 114 (i.e. the Economic and Financial Committee) has to formulate an opinion on the report of the Commission". The Committee issued its opinion on 24 May 2004, subscribing to the assessment made by the Commission in its report. In particular, the Committee concluded that the budgetary situation in Poland indicated the existence of an excessive deficit under the first

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1 The Commission Spring 2004 forecast is available at the following website: http://europa.eu.int/comm/economy_finance/publications/european_economy/2004/ee204en.pdf.

2 According to the convergence programme, submitted by the Polish authorities on 17 May, the deficit for 2002 was revised to 4.0% of GDP.

3 The full text of this report is available at the following website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/procedures_en.htm.

4 OJ L 209, 2.8.1997.

of the two criteria foreseen by Article 104(2) for the identification of such deficits. Consideration of other relevant factors, in particular the medium-term budgetary position and the public investment ratio, did not change the assessment based on the criteria themselves. The Committee also considered as likely that the general government deficit would continue to exceed the Treaty reference value in 2004, and that general government gross debt would remain below the Treaty reference value of 60% of GDP in 2004.

The Commission, having examined the relevant factors taken into account in its report and having regard to the opinion of the Committee, is of the opinion that an excessive deficit exists in Poland. This opinion, adopted by the Commission on 24 June 2004, is herewith addressed to the Council, according to Article 104(5) of the Treaty. The Commission recommends that the Council shall decide accordingly, in conformity with Article 104(6). In addition, the Commission is submitting to the Council a recommendation for a Council recommendation to be addressed to Poland with a view to bringing the situation of an excessive deficit to an end, according to Article 104(7) of the Treaty.

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GENERAL CONSIDERATIONS

According to Article 104 of the Treaty, Member States are to avoid excessive government deficits. This applies also to the Member States with a derogation, the case of all countries that joined the EU on 1 May 2004. Decisions on the existence of an excessive deficit are governed by the excessive deficit procedure (EDP) specified by Article 104 of the Treaty and Council Regulation (EC) No 1467/97, which is part of the Stability and Growth Pact [5].

Article 104(2) of the Treaty requires the Commission to monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular, the Commission has to examine compliance with budgetary discipline on the basis of two criteria, one for the ratio of the planned or actual government deficit to gross domestic product (GDP) and one for the ratio of government debt to GDP. The statistical data on these variables are provided by the Commission on the basis of reporting by the Member States.

Article 104(3) of the Treaty requires the Commission to prepare a report if the requirements under one or both of the criteria of Article 104(2) are not fulfilled or if, notwithstanding the fulfilment of the requirements under the criteria, the Commission is of the opinion that there is a risk of an excessive deficit in a Member State. The Commission report also takes into account whether the government deficit exceeds government investment expenditure and all other relevant factors, including the medium-term economic and budgetary position of the Member State, as required by Article 104(3) of the Treaty. On the basis of its Spring 2004 forecasts, which took into consideration data reported by Poland in March 2004, the Commission has adopted such a report for Poland on 12 May 2004.

Subsequently, and in accordance with Article 104(4), the Economic and Financial Committee has formulated an opinion on the report of the Commission on 24 May 2004.

Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if it considers that an excessive deficit in a Member State exists or may occur. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its own report and (ii) the opinion of the Economic and Financial Committee on it. On the basis of these elements, the Commission has established a number of considerations for Poland.

CONSIDERATIONS CONCERNING POLAND

1. The general government deficit in Poland was 4.1% of GDP in 2003, well above the 3% of GDP reference value of the Treaty. It remained at about the 2002 deficit (4.0 % of GDP, revised upward in the May 2004 convergence programme from 3.6% of GDP in the March 2004 fiscal notification).

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5 OJ L 209, 2.8.1997.

2. The excess of the deficit over the 3% of GDP reference value in 2003 did not result from an unusual event outside the control of the Polish authorities, nor from a severe economic downturn, in the sense of the Stability and Growth Pact. In 2003, real GDP growth reached 3.8% according to the latest estimates.

3. The outturn for the general government deficit in 2003 was higher than planned in August 2002 when the pre-accession economic programme was adopted. Higher-than-expected expenditure resulted from additional outlays for various social allowances (e.g. child and family allowances) and foreign debt servicing. In spite of higher growth and various measures to improve tax administration, revenues in 2003 were lower than initially foreseen. Personal income tax revenues were over-estimated reflecting an optimistic wages and employment forecast. Indirect taxes revenues were lower than expected.

4. Gross government investment in 2003 was 3.5% of GDP, compared to a general government deficit of 4.1% of GDP.

5. The general government deficit is likely to continue to exceed the Treaty reference value in 2004. In particular, the Commission Spring 2004 forecasts project the general government deficit in Poland to reach 6.0% of GDP in 2004, which is above the 5.7% of GDP projected by the Polish authorities in the convergence programme.

6. The gross government debt to GDP ratio in Poland, which reached 45.4% of GDP in 2003, is likely to stay below the 60% of GDP Treaty reference value in 2004. In particular, the Commission Spring 2004 forecasts project gross government debt to reach 49.1% of GDP in 2004, which corresponds to the 49% of GDP projected by the Polish authorities in the convergence programme.

CONCLUSION

The monitoring of the budgetary situation in Poland and, in particular, the examination of the compliance with the criteria laid down in Article 104(2) has led the Commission to prepare a report in accordance with Article 104(3) of the Treaty. The Commission, having examined the relevant factors taken into account in this report and having regard to the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in Poland.