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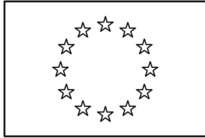

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.3.2009
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COMMISSION OPINION

on the existence of an excessive deficit in France

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THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

1. Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be timely, targeted and temporary and differentiated across Member States, with more room for manoeuvre for those Member States that have achieved sustainable public finance positions and improved their competitive positions. It also called for structural reforms that support demand and promote resilience in the short term, while paying special attention to actions in the four priority areas of the Lisbon strategy. Finally, several countries have taken measures to stabilise the financial sector, some of which impact on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

2. The Stability and Growth Pact requires the Commission to initiate the excessive deficit procedure (EDP) whenever the deficit of a Member State exceeds the 3% of GDP reference value. The amendments to the Stability and Growth Pact in 2005 aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation, and thereby ensuring long-term sustainability of public finances.

LEGAL BACKGROUND

3. Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact.

[1] OJ L 209, 2.8.1997, p. 6. Account is also taken of the Opinion of the Economic and Financial Committee on the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005, available at:
http://ec.europa.eu/economy_finance/other_pages/other_pages12638_en.htm.

4. According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

6. Article 104(3) stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

6. On the basis of the data notified by the French authorities on 6 February 2009 in a letter from the Minister of the Economy, Industry and Employment addressed to the Commissioner of Economic and Financial Affairs and taking into account the Commission services' January 2009 interim forecast, the Commission adopted a report under Article 104(3) for France on 18 February 2009[2].

7. Subsequently, and in accordance with Article 104(4), the Economic and Financial Committee formulated an opinion on the Commission report on 27 February 2009.

8. Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission 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 report under Article 104(3) and (ii) the opinion of the Economic and Financial Committee on this report. On the basis of these elements, the Commission has established a number of considerations for France.

CONSIDERATIONS CONCERNING FRANCE

9. A previous EDP with regard to France was abrogated by the Council in January 2007[3]. It had been initiated with the Commission's adoption on 2 April 2003 of a report under Article 104(3) in view of a deficit of 3.1% of GDP in 2002. The Council, upon the corresponding Commission recommendations, placed France in excessive deficit in June 2003 and addressed recommendations to it with a view to bringing the excessive deficit situation to an end by 2004. On 14 December 2004, the Commission adopted a Communication to the Council[4], which concluded that the

[2] All EDP-related documents for France can be found at the following website: http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode=_m2.

[3] All the necessary documents can be found at: http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/excessive_deficit9109_en.htm

[4] The situation of Germany and France in relation to their obligations under the excessive deficit procedure following the judgement of the Court of Justice, COM (2004) 813 final

year 2005 should be considered as the relevant deadline for the correction[5]. Upon the Commission recommendation of November 2006, the Council decided on 30 January 2007 to abrogate its decision on the existence of an excessive deficit in France (under Article 104(12)) taking into account the decline of the deficit below 3% of GDP in 2005 (including through one-off measures) and a reduction of the debt ratio to 63.6% in 2006, as well as an expected continuous decline in both the deficit and debt ratios over subsequent years.

10. After the closing of the EDP procedure in January 2007, public finances deteriorated again. The headline deficit increased by 0.3 pp. of GDP in 2007 and attained 2.7% of GDP, while the structural deficit increased by 0.3 pp. of GDP to 3.6% of GDP. This deterioration occurred in a context of continued GDP growth of 2.2%. In the November 2007 update of the stability programme, the French authorities planned a consolidation of public finances of only 0.1% of GDP in 2008, a year for which the growth projection contained in the programme was 2%-2.5%. Already on 28 May 2008, when the economic conditions looked better but the Commission services Spring forecast showed a deficit of 2.9% of GDP in 2008, the Commission warned against a possible breach of the 3% threshold and therefore issued a policy advice[6].

11. According to the data notified by the French authorities on 6 February 2009, the general government deficit in France reached 3.2% of GDP in 2008, thus exceeding the 3% of GDP reference value. On 4 March, the Government announced that the deficit was expected to have reached 3.4% in 2008 (this estimate is not final). The Commission report under Article 104(3) considers that the deficit was close to the 3% of GDP reference value but that the excess over the reference value cannot be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it cannot be considered to result from a severe economic downturn in 2008 in the sense of the Treaty and the Stability and Growth Pact. According to the French statistical office (INSEE)[7], GDP growth is estimated to have attained 0.7% of GDP in 2008, after 2.2% in 2007. This annual average 2008 growth figure does not allow to qualify the excess deficit as exceptional. The excess over the reference value cannot be considered temporary. According to the Commission services' January 2009 interim forecast, the general government deficit is forecast to reach 5.4% of GDP in 2009 and, on a no-policy change basis, to decline only slightly to 5% in 2010 as the budgetary impact of the recovery plan is phased out. Therefore the deficit criterion in the Treaty is not fulfilled.

12. General government gross debt has been above the 60% of GDP reference value since 2003 and is estimated at 66.7% of GDP for 2008 in the December 2008 update of the stability programme. According to the Commission Services' January 2009

[5] This followed the October 2003 Commission recommendations based on Articles 104(8) and (9), respectively, for (i) a Council decision stating that measures taken by France had been insufficient and (ii) giving notice to France to take measures to correct the excessive deficit by 2005 (rather than 2004 as part of the budgetary slippage could be attributed to the deterioration in cyclical conditions). On 25 November 2003, the Council voted on the two recommendations but did not adopt them. Instead, it adopted conclusions addressing recommendations to France for the correction of the excessive deficit by 2005, which were annulled by the European Court of Justice in July 2004.

[6] Commission Recommendation of 28 May 2008, providing a policy advice on the economic and budgetary policy in France.

[7] Press release of INSEE on 13 February 2009 (Informations rapides n° 47).

interim forecast, the debt-to-GDP ratio should stand at 67.1% in 2008, and reach 72.4% in 2009 and 76% in 2010. In their 4 March 2009 announcement, the authorities acknowledged that debt would be higher than envisaged in the programme, and published new projections according to which debt would rise to 73.9% of GDP in 2009 and 77.5% in 2010. The debt ratio cannot be considered as sufficiently diminishing and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. The debt criterion in the Treaty is not fulfilled.

13. In line with the provisions in the Treaty and the Stability and Growth Pact, the Commission also analysed in its report "relevant factors". According to the Stability and Growth Pact, these can only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the deficit satisfies the double condition of closeness and temporariness. In the case of France, the double condition is not met. Considered on their own merit, the relevant factors in the current case on balance seem to be relatively favourable.

14. The opinion of the Economic and Financial Committee in accordance with Article 104(4) of the Treaty is consistent with the assessment in the Commission report under Article 104(3).

CONCLUSION

15. The monitoring of the budgetary situation in France 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 taken into account its report and the opinion of the Economic and Financial Committee, is of the opinion that an excessive deficit exists in France.