



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.6.2004
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Recommendation for a

COUNCIL DECISION

on the existence of an excessive deficit in the Czech Republic

(presented by the Commission)

EXPLANATORY MEMORANDUM

On 7 April 2004, the Commission published its Spring 2004 forecasts¹. According to these forecasts, which took into consideration data reported by the Czech Republic in March 2004, the general government deficit in the Czech Republic increased from 6.4% of GDP in 2002 to 12.9% of GDP in 2003 (5.9% of GDP excluding a major one-off operation related to imputed state guarantees), thus exceeding the 3% of GDP Treaty reference value.

Based on this prima facie evidence, the Commission initiated the excessive deficit procedure for the Czech Republic on 12 May 2004, with the adoption of the report foreseen in Article 104(3) of the Treaty². On 13 May 2004, the Commission received the convergence programme of the Czech Republic, which confirmed a deficit figure of 12.9% 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 Pact³. 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 Czech Republic's deficit in 2003 over the 3% of GDP Treaty reference value did not result from an unusual event outside the control of the Czech 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 2.9% in 2003. Concerning developments in 2004, the report concluded that the general government deficit is likely to decrease but remain above 3% of GDP. In particular, the Commission Spring 2004 forecasts are for a general government deficit of 5.9% of GDP in 2004, which is above the 5.3% of GDP projected by the Czech 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 37.6% of GDP in 2003, will remain below the 60% reference value of the Treaty in 2004. In particular, the Commission Spring 2004 forecasts projects the debt ratio to reach 40.6% of GDP in 2004, which is above the 38.4% of GDP projected by the Czech authorities in the convergence programme.

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 the Czech Republic indicated the existence of an excessive deficit under the first 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

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 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

³ OJ L 209, 2.8.1997.

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 but increase further to 40.6% 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 the Czech Republic. This opinion, adopted by the Commission on 24 June 2004, has been 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) and herewith addresses a recommendation for a decision to that effect. In addition, the Commission is submitting to the Council a recommendation for a Council recommendation to be addressed to the Czech Republic with a view to bringing the situation of an excessive deficit to an end, according to Article 104(7) of the Treaty.

Recommendation for a

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THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission,

Having regard to the observations made by the Czech Republic,

Whereas:

- (1) According to Article 104 of the Treaty Member States are to avoid excessive government deficits; this applies also to Member States with a derogation, the case of all countries that joined the EU on 1 May 2004;
- (2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation;
- (3) The excessive deficit procedure under Article 104 provides for a decision on the existence of an excessive deficit and the Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the excessive deficit procedure. Council Regulation (EC) No 3605/93⁴, amended by Council Regulation (EC) No 475/2000⁵ and by Commission Regulation (EC) No 351/2002⁶, lays down detailed rules and definitions for the application of the provision of the said Protocol;
- (4) 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. Having examined all relevant factors taken into account in its report in accordance with Article 104(3) and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4), the Commission concluded in its opinion of 24 June 2004 that there exists an excessive deficit in the Czech Republic;

⁴ OJ L 332, 31.12.1993, p. 7.

⁵ OJ L 58, 3.3.2000, p. 1.

⁶ OJ L 55, 26.2.2002, p. 23.

- (5) Article 104(6) of the Treaty lays down that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists;
- (6) The overall assessment leads to the following conclusions. The general government deficit reached 12.9% of GDP in 2003 (5.9% of GDP excluding a major one-off operation related to imputed state guarantees) in the Czech Republic, above the 3% of GDP Treaty reference value. The excess of the general government deficit over the reference value did not result from an unusual event outside the control of the Czech authorities, nor was it the result of a severe economic downturn, in the sense of the Stability and Growth Pact. The general government deficit is likely to remain above 3% of GDP in 2004. In particular, according to the Commission Spring 2004 forecast, the deficit is projected to reach 5.9% of GDP in 2004, while the convergence programme of the Czech Republic expects a deficit of 5.3% of GDP. The debt ratio, which was 37.6% in 2003, is likely to remain below the 60% of GDP Treaty reference value in 2004.

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that an excessive deficit exists in the Czech Republic.

Article 2

This decision is addressed to the Czech Republic.

Done at Brussels, [5 July] 2004.

For the Council
The President
[...]