COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.6.2004
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Recommendation for a

COUNCIL RECOMMENDATION TO SLOVAKIA

with a view to bringing an end to the situation of an excessive government deficit

(presented by the Commission)

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 Slovakia in March 2004, the general government deficit in Slovakia decreased from 5.7% of GDP in 2002 to 3.6% 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 Slovakia on 12 May 2004, with the adoption of the report foreseen in Article 104(3) of the Treaty[2]. On 14 May 2004, the Commission received the convergence programme of Slovakia, which confirmed a deficit figure of 3.6% 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[3]. 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 Slovak deficit in 2003 over the 3% of GDP Treaty reference value did not result from an unusual event outside the control of the Slovak 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 4.2% in 2003. Concerning developments in 2004, the report concluded that the general government deficit was likely to increase and remain above 3% of GDP. In particular, the Commission Spring 2004 forecast is for a general government deficit of 4.1% of GDP in 2004, which is close to the 4.0% of GDP projected by the Slovak 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 42.8% of GDP in 2003, would remain below the 60% reference value of the Treaty in 2004. In particular, the Commission Spring 2004 forecast projects the debt ratio to reach 45.1% of GDP in 2004, which is equal to the 45.1% of GDP projected by the Slovak 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 Slovakia 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 position and the public investment ratio did not change the assessment based on the criteria themselves. The Committee also expected the general government deficit to remain well above the Treaty

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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 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.

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 Slovakia. 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 has recommended that the Council shall decide accordingly, in conformity with Article 104(6). In addition, the Commission is herewith submitting to the Council a recommendation for a Council recommendation to be addressed to Slovakia with a view to bringing the situation of an excessive deficit to an end, according to Article 104(7) of the Treaty. The monitoring of the implementation of action taken by Slovakia may demand that the Council makes further recommendations according to Article 104(7), given the non-applicability of Article 104(9) to Member States with a derogation.

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(7) thereof;

Having regard to the recommendation from the Commission;

Whereas:

(1) According to Article 104 of the Treaty, Member States are to avoid excessive government deficits;

(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 Council has decided on [5 July] 2004, in accordance with Article 104(6), that an excessive deficit exists in Slovakia;

(4) Having decided on the existence of an excessive deficit in Slovakia, the Council, in accordance with Article 104(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97, is required to make at the same time recommendations to the Member State concerned with a view to bringing that situation to an end within a given period;

(5) According to Article 3(4) of Council Regulation (EC) No 1467/97, this recommendation should specify that effective action is to be taken by the Member State concerned within four months at most and that the correction of the excessive deficit should be completed in the year following its identification unless there are special circumstances. Such special circumstances are present in the case of Slovakia namely because of the ongoing structural shift in the economy;

(6) The existence of special circumstances authorises the Council to allow the correction of the excessive deficit in a medium-term framework. It is appropriate to consider the convergence programme submitted by Slovakia in May 2004, and its subsequent updates, and the Council Opinions thereof as providing the adjustment path for the correction of the excessive deficit. The convergence programme of May 2004 plans to complete the correction of the excessive deficit by 2007, with the following annual targets for the general government deficit: 4.0% of GDP in 2004, 3.9% of GDP in 2005, 3.9% of GDP in 2006 and 3.0% of GDP in 2007. The adjustment path is based on a macro-economic scenario which, according to the Council Opinion of [5 July] 2004 on the convergence programme, is plausible;

(7) In the view of the Council, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy.

HEREBY RECOMMENDS:

– the Slovak authorities to put an end to the present excessive deficit situation as rapidly as possible;

– the Slovak authorities to take action in a medium-term framework in order to bring the deficit below 3% of GDP in 2007 in a credible and sustainable manner, in accordance with the path for deficit reduction as specified in the Council Opinion [of 5 July 2004] on the convergence programme submitted in May 2004;

– the Slovak authorities to implement with vigour the measures envisaged in the May 2004 convergence programme, in particular those related to the proposed further health care reforms and further public sector rationalisation;

– the Slovak authorities to take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target.

In addition, the Council invites the Slovak authorities:

– to seize every opportunity to accelerate the fiscal adjustment, in particular by allocating higher-than-budgeted revenues to deficit reduction;

– to strengthen the binding character of the three-year budgetary framework by introducing detailed medium-term expenditure ceilings to be adopted by parliament.

This recommendation is addressed to the Slovak Republic.

Done at Brussels, [5 July] 2004.

For the Council
The President
[...]