



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 6 January 2005
(OR. en)**

14576/04

**ECOFIN 368
UEM 170**

LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject : Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Poland

COUNCIL RECOMMENDATION

of 5 July 2004

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

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 decided on 5 July 2004, in accordance with Article 104(6), that an excessive deficit exists in Poland.
- (4) Having decided on the existence of an excessive deficit in Poland, the Council, in accordance with Article 104(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure ¹, 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 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 Poland namely because the general government deficit upon EU accession was significantly above the reference value and because of the ongoing structural shift to a modern service-oriented market economy accompanying the process of real convergence.

¹ OJ L 209, 2.8.1997, p. 6.

- (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 Poland 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: 5,7% of GDP in 2004, 4,2% of GDP in 2005, 3,3% in 2006 and 1,5% of GDP in 2007. The programme builds its projections for 2005 and beyond on the so-called Hausner plan. The adjustment path is based on a macro-economic scenario which, according to the Council Opinion of 5 July 2004 on the convergence programme, reflects rather favourable growth assumptions in the outer years of the programme.
- (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 Polish authorities to put an end to the present excessive deficit situation as rapidly as possible;
- the Polish authorities to take action in a medium-term framework in order to achieve their objective of bringing the deficit below 3% of GDP in 2007 in a credible and sustainable manner, in accordance with the path for deficit reduction specified in the Council Opinion of 5 July 2004 on the convergence programme submitted in May 2004;

- the Polish authorities to implement with vigour the measures envisaged in the May 2004 convergence programme, in particular those contained in the so-called Hausner plan;
- the Polish 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 Polish authorities:

- to allocate possible extra revenues to decrease the general government deficit;
- to ensure that the rise in the debt ratio is brought to a halt.

This recommendation is addressed to the Republic of Poland.

Done at Brussels, 5 July 2004

For the Council
The President

=====