

II

(Acts adopted under the EC Treaty/Euratom Treaty whose publication is not obligatory)

DECISIONS

COUNCIL DECISION

of 10 July 2007

establishing, in accordance with Article 104(8), that the action taken by the Czech Republic in response to the Recommendation of the Council in accordance with Article 104(7) of the Treaty establishing the European Community is proving to be inadequate

(2007/640/EC)

THE COUNCIL OF THE EUROPEAN UNION,

accordance with Article 104(6) of the Treaty, that an excessive deficit existed in the Czech Republic.

Having regard to the Treaty establishing the European Community, and in particular Article 104(8) 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. The Stability and Growth Pact includes Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽¹⁾ which was adopted to further the prompt correction of excessive general government deficits.

(3) By Council Decision 2005/185/EC⁽²⁾, it was decided, following a recommendation from the Commission in

(4) On 5 July 2004, in accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation (EC) No 1467/97, the Council, based on a recommendation from the Commission, adopted a recommendation to the Czech authorities with a view to bringing the excessive deficit situation to an end as rapidly as possible and to taking action in a medium-term framework to achieve the objective of bringing the deficit below 3 % of GDP by 2008 in a credible and sustainable manner, in accordance with the path for deficit reduction specified in the convergence programme submitted by the authorities in May 2004 and endorsed in the Council Opinion of 5 July 2004 on the Convergence Programme of the Czech Republic, 2004-2007⁽³⁾, with the following intermediate annual targets: 5,3 % of GDP in 2004, 4,7 % of GDP in 2005, 3,8 % of GDP in 2006, 3,3 % of GDP in 2007. The Council established the deadline of 5 November 2004 to take effective action 'regarding the measures envisaged to achieve the 2005 deficit target'. The Czech Republic agreed to make the recommendation public.

(5) After the expiry of the deadline of 5 November 2004, the Commission concluded, in its Communication to the Council of 14 December 2004⁽⁴⁾, that no further steps were necessary under the excessive deficit procedure for the Czech Republic as the Czech government had taken effective action regarding the measures envisaged to achieve the 2005 deficit target. The November 2005 update of the convergence programme indicated a deficit of 2,7 % of GDP for 2008 which was endorsed by the Council on 24 January 2006.

⁽¹⁾ OJ L 209, 2.8.1997, p. 6. Regulation as last amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).

⁽²⁾ OJ L 62, 9.3.2005, p. 20.

⁽³⁾ OJ C 320, 24.12.2004, p. 1.

⁽⁴⁾ Communication from the Commission to the Council: The action taken by the Czech Republic, Cyprus, Malta, Poland and Slovakia in response to the Council recommendations under the excessive deficit procedure — SEC(2004) 1630, 22.12.2004.

(6) The assessment of the action taken by the Czech Republic to correct the excessive deficit by 2008 in response to the Council recommendation under Article 104(7) leads to the following conclusions:

- on 15 March 2007, the Czech Republic submitted the most recent update of the convergence programme, covering the period until 2009. The programme contained the following annual deficit projections: 4,0 % of GDP for 2007, 3,5 % of GDP for 2008 and 3,2 % of GDP for 2009. The programme also included an additional 'declaration of the new government' aiming to reduce the general deficit to 3,2 % of GDP in 2008 and 2,8 % of GDP in 2009 based on a wide range of as yet unknown policy measures,
- the Commission services' spring 2007 forecast, which projects that the deficit will reach 3,9 % of GDP and 3,6 % of GDP in 2007 and 2008 respectively on a no-policy change basis, confirms that, on current policies, the targets set in the Council recommendation under Article 104(7) for 2007 (3,3 % of GDP) and 2008 (below 3 % of GDP) will be missed. In structural terms (i.e. in cyclically-adjusted terms net of one-off and other temporary measures), the deficit would widen by 1¼ percentage points of GDP in 2007, after deteriorations in both 2005 and 2006,
- the higher 2007 deficit comes against much stronger growth than forecast at the time of the Council recommendation and is mainly due to increases in social spending decided before the 2006 parliamentary elections. The higher 2007 deficit is projected to occur against the background of much lower deficits in the preceding years than foreseen in the Council recommendation. This was due mainly to better than expected growth rather than durable cuts in expenditure.

(7) This leads to the conclusion that, while the Czech Republic has so far overachieved the budgetary targets for 2004-2006 of the consolidation path set in the Council recommendation of 5 July 2004, the 2007 deficit will be well above the target set by the Council and the 2008 deficit will on current policies clearly exceed the 3 % of GDP threshold. The Czech authorities' budgetary targets are not in line with the recommendations of the Council for a correction of the excessive deficit by the 2008 deadline. No unexpected adverse economic events with major unfavourable consequences for government finances as meant in Article 3(5) of Council Regulation (EC) No 1467/97 have occurred since the adoption of the recommendation. On the contrary, developments in the economy relevant for public finances have been significantly more favourable than expected,

HAS ADOPTED THIS DECISION:

Article 1

The action taken by the Czech Republic in response to the Council Recommendation of 5 July 2004 under Article 104(7) of the Treaty is proving to be inadequate to correct the excessive deficit within the deadline fixed by the Recommendation.

Article 2

This Decision is addressed to the Czech Republic.

Done at Brussels, 10 July 2007.

For the Council

The President

F. TEIXEIRA DOS SANTOS