COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 29.11.2006
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Recommendation for a

COUNCIL DECISION

abrogating Decision 2003/487/EC on the existence of an excessive deficit in France

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. BACKGROUND AND RECOMMENDATIONS

Article 104 of the Treaty establishes that Member States should avoid excessive deficits and lays down a procedure for their identification and correction. The excessive deficit procedure (EDP) 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.

In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the EDP. As part of the application of this Protocol, Member States have to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93[2].

On 2 April 2003, the Commission initiated the EDP for France with the adoption of a report under Article 104(3), based on a general government deficit of 3.1% of GDP in 2002[3]. On 3 June 2003, the Council decided, on a recommendation from the Commission, that France was in excessive deficit according to Article 104(6). At the same time, and also based on a Commission recommendation, the Council addressed recommendations under Article 104(7) to France with a view to bringing the situation of an excessive government deficit to an end[4] as rapidly as possible and by 2004 at the latest, via a significantly larger improvement in the cyclically-adjusted-deficit in 2003 than the 0.1% of GDP planned at the time and by implementing measures ensuring that the cyclically-adjusted-deficit was reduced in 2004 by at least 0.5% of GDP to bring the nominal deficit below 3% in 2004 at the latest.

In 2003, the French budget deficit continued to deteriorate. In October 2003, the Commission considered that the measures taken by France had been insufficient to respect this recommendation and adopted recommendations for the Council to (i) decide accordingly under Article 104(8) and (ii) give notice to France to take measures to correct the excessive deficit based on Article 104(9). In particular, the Commission services' autumn 2003 forecast showed a deficit of 4.2% of GDP in 2003 and of 3.8% of GDP in 2004. In the recommended notice, the Commission proposed to extend the deadline for the correction of the excessive deficit to 2005, as part of the slippage could be attributed to the deterioration in cyclical conditions (growth turned out to be just 1.1%). 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 and stating that, in view of the commitments by France, the EDP was held in abeyance. On 13 July 2004 these conclusions were annulled by the European Court of Justice[5].

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1. OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).
2. OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).
3. The 2002 deficit was revised upwards to 3.2% of GDP in March 2004.
4. All EDP-related documents for France can be found at the following website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/procedures_en.htm.
5. Case C-27/04, Commission vs Council, [2004] ECR I-6649.

On 14 December 2004, the Commission adopted a Communication to the Council[6], which concluded that, in view of the unique circumstances created by the Council conclusions of 25 November 2003 and of the ruling of the European Court of Justice of 13 July 2004, the year 2005 should be considered as the relevant deadline for the correction. It also concluded that actions taken by France until then were broadly consistent with a correction of the excessive deficit by 2005 and that, while the budgetary situation remained vulnerable, no further steps under the EDP were considered necessary at that stage. On 18 January 2005, the Council concurred with this view and endorsed the underlying adjustment summarised in table 1. In particular, France was expected to improve the cyclically-adjusted balance by 0.7 percentage point of GDP in 2005, including one-off operations worth 0.5% of GDP[7].

Table 1: Underlying adjustment endorsed by the Council on 18 January 2005

% of GDP, unless indicated otherwise	*2003 (historical data)*	***2004***	***2005***
General government balance	*-4.1*	*-3.7*	*-3.0*
Cyclically-adjusted balance (CAB)	*-3.8*	*-3.5*	*-2.8*
Change in CAB	*-0.5*	*+0.3*	*+0.7*
Government gross debt	*63.7*	*64.9*	*65.5*
p.m.: Real GDP growth (%)	*0.5*	*2.4*	*2.2*

Source: Communication from the Commission to the Council, "The situation of Germany and France in relation to their obligations under the excessive deficit procedure following the judgement of the Court of Justice", 14 December 2004 - COM(2004) 813 -, quoting the Commission services' autumn 2004 forecast.

According to Article 104(12), a Council decision on the existence of an excessive deficit is to be abrogated, on the basis of a Commission recommendation, when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

2. DEFICIT DEVELOPMENTS IN 2005

After having fallen from 4.2% of GDP to 3.7% of GDP in 2004 against the background of strengthened GDP growth, the deficit was reduced to 2.9% of GDP in 2005. This was confirmed by Eurostat in its first notification on deficit and debt data[8] for 2005, following the reporting by France before 1 April 2006[9]. At this level, the deficit was in line with the target of the December 2004 update of the French stability programme and the path endorsed by the Council in January 2005[10], despite lower growth than expected. The decrease in the deficit was revenue driven as the total revenues-to-GDP ratio increased by 1.3% of GDP, which over-compensated the increase in the total expenditure-to-GDP ratio. Most of the expenditure

6 Communication from the Commission to the Council: *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.

7 Related to the revenue in exchange for the transfer of responsibility for the payment of future pensions to employees in electricity and gas public companies to social security.

8 Euro-indicators press release 48/2006 – 24 April 2006. The 23 October 2006 budgetary notification confirmed the 2005 deficit outcome at 2.9% of GDP (Euro-indicators press release 139/2006 – 23 October 2006).

9 Government accounts are usually revised for 4 years before becoming final. Based on past experience, French government statistics are highly reliable; Therefore, any future (upward or downward) revision in the deficit figures is expected to be very small.

10 It should be noted that the deficit benefited from a decrease in expenditure by 0.1% of GDP in connection with the implementation of the 9 March 2006 Eurostat decision on the recording of military expenditure (at the time of delivery).

slippage came from the local administration sector. In cyclically-adjusted terms, the adjustment reached 1.2% of GDP, above the 0.7% underlying adjustment endorsed by the Council in January 2005. However, this outcome relied on one-off revenues amounting to 0.6% of GDP in relation with (a) a lump-sum in exchange for the transfer of responsibility for the payment of pensions to employees in electricity and gas public companies to social security ("soulte EDF") and (b) a change in the corporate tax code decided in December 2005. Therefore, despite the structural adjustment (the cyclically-adjusted adjustment net of one-offs) of 0.6% of GDP[11] recorded in 2005 according to the Spring notification, it was not possible to conclude that the excessive deficit had been corrected in a credible and sustainable manner. To arrive at such conclusion, it was necessary to establish that the deficit level would be maintained below the 3% of GDP threshold in the following years. This was not yet possible in Spring 2006, as the Commission services' Spring 2006 forecasts projected the deficit to increase slightly to 3.0% of GDP in 2006 and 3.1% in 2007.

3. DEFICIT PROJECTIONS FOR 2006 AND BEYOND

Taking into account additional information, in the Commission services' Autumn 2006 forecast, the general government deficit is projected to further decline to 2.7% of GDP in 2006, 2.6% of GDP in 2007, and – on a no-policy change basis – 2.2% of GDP in 2008.

The projected outcome for 2006 of 2.7% of GDP is in line with the most recent official projections[12], and lower than the objectives in the January 2006 update of the French stability programme of 2.9% of GDP. In the Commission services' 2006 Autumn forecast, the reduction in the deficit by 0.2% of GDP compared to 2005 is the result of (a) an acceleration in GDP growth (from 1.2% to a projected 2.2%) which boosted revenues, and (b) a slowdown in expenditure. On the revenue side, buoyant consumption (VAT), higher corporate profits (corporate tax) and a robust employment performance (income tax) are expected to lead to strong revenues, which would result in a slight (0.1% of GDP) increase in the tax burden to just above 44% of GDP. On the expenditure side, health-care and other social expenditure growth slowed down thanks to the measures taken under the health-care reform of 2004 and the improvement on the employment front, while State expenditure is expected to respect the zero-volume growth norm. Taken together, these elements would more than compensate the still rapid pace of expenditure growth in the local administration sector notably in connection with a rebound in local investment, which cannot be excluded at the end of the local electoral term. As a result the expenditure-to-GDP ratio is expected to decrease by 0.3% of GDP to 53.5%. The reduction in the deficit will still rely on one-offs of ¼% of GDP in connection with the transfer of postal sector employees' pension commitments to social security and the exceptional collection of taxes on specific saving plans that were to be collected at a later stage. The 2006 deficit forecast implies an improvement in the structural balance (the cyclically-adjusted-balance net of one-offs) by 0.5% of GDP.

The Commission services deficit forecast for 2007 of 2.6% of GDP is 0.1% higher than the French authorities' target set in the draft budget. The forecast is based on an expected GDP growth rate of 2.3% in 2007 and incorporates the measures presented in the 2007 draft budget

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11 The apparent bigger difference between the structural balances in 2004 and 2005 is due to rounding effect.

12 The 2006 deficit projections by both the Commission services and the 2007 draft budget incorporate the implementation of the March 2006 Eurostat decision concerning military expenditure leading to an expenditure reduction for both 2005 and 2006 by 0.1% of GDP.

for the State and the social security sector. On the expenditure side, the expenditure-to-GDP ratio is forecast by the Commission services to decrease by 0.4% of GDP relative to 2006. This stems from opposite movements. It includes (a) a decrease in State expenditure by 1% in real terms, thanks to the implementation of a stricter expenditure ceiling for the State, the biggest innovation of the 2007 draft budget, (b) a reduction in the number of State civil servants, and (c) a significant slowdown in social expenditure growth notably thanks to the robust employment performance. By contrast, expenditure from local administrations, which failed to agree on new expenditure rules/ceilings announced in the January 2006 update of the stability programme (see also Section 5 below), is expected to continue growing at a rapid pace.

On the revenue side, the main measures are: (a) the income tax reduction (0.2% of GDP), (b) a further increase in the (negative tax) employment premium (0.05% of GDP), and (c) continued tax exemption for new investment (0.06% of GDP). Together with other small items, these measures are expected to increase the deficit by about 0.4% of GDP. However, as revenue growth is expected to remain strong – the tax-to-GDP elasticity is likely to still be slightly above the historical average – the revenue-to-GDP ratio is forecast to only decrease by 0.3% of GDP compared to 2006, also including 0.05% of one-off revenues[13]. In structural terms, the Commission services' deficit forecast for 2007 implies an improvement of 0.3% of GDP.

The Commission services' autumn 2006 forecast of a further deficit reduction to 2.2% of GDP in 2008, against the background of GDP growth at 2.1%, is based on the conventional no-policy change assumption, and assumes no further one-offs. It compares to a deficit target of 1.8% of GDP set in the 2007 draft budget. According to the Commission services forecast, in 2008 the deficit would fall by another 0.6% of GDP in structural terms[14].

The projected reduction in the deficit and the implied structural adjustment from 2006 onwards also have to be seen against the progress needed towards the medium-term objective (MTO) of a balanced structural position as set by the French authorities.

13 The one-off revenues stem from a change in the corporate tax code and the advanced collection of taxes on saving plans.

14 The apparent bigger difference between the structural balances in 2004 and 2005 from table 2 is due to a rounding effect.

Table 2: Budgetary developments, 2002-2008

% of GDP, unless indicated otherwise	2002	2003	2004	2005	2006 COM	2006 SP[2]	2007 COM[3]	2007 SP[2]	2008 COM[3]	2008 SP[2]
General government balance	-3.2	-4.2	-3.7	-2.9	-2.7	-2.9 (-2.7) [4]	-2.6	-2.6 (-2.5) [4]	-2.2	-1.9 (-1.8) [4]
- Total revenues	49.5	49.2	49.6	50.9	50.8	50.7	50.5	50.3	50.6	50.2
- Total expenditure	52.6	53.3	53.2	53.7	53.5	53.6	53.1	53	52.8	52.1
Of which : - interest expenditure	2.9	2.8	2.7	2.7	2.6	2.6	2.7	2.6	2.7	2.5
- gross fixed capital formation	2.9	3.1	3.1	3.2	3.3	3.2	3.4	3.2	3.5	3.1
One-off and temporary measures	n.a.	0.0	0.1	0.6	0.2	0.2	0.0	0.0	0.0	0.0
Cyclically-adjusted balance	-3.6	-4.1	-3.7	-2.5	-2.3	-2.7	-2.3	-2.3	-1.8	-1.5
Structural balance[1]	n.a.	-4.1	-3.8	-3.1	-2.6	-2.9	-2.3	-2.3	-1.8	-1.5
Government gross debt	58.2	62.4	64.4	66.6	64.7	66 (64.6) [4]	63.9	65.6 (63.6) [4]	63.3	64.6 (62.6) [4]
Pm Real GDP growth (%)	1.0	1.1	2.3	1.2	2.2	2.0/2.5	2.3	2.3	2.1	2.3
Pm Output gap	0.9	-0.1	0.0	-0.8	-0.8	-0.4	-0.7	-0.6	-0.9	-0.8

(1) Cyclically-adjusted balance excluding one-off and temporary measures
(2) Cyclically-adjusted and structural balances and output gaps according to the programme as calculated by Commission services on the basis of the information in the programme
(3) No-policy change assumption
(4) Targets presented in the most recent French authorities' forecast, the 2007 draft budget

Sources: Commission services' autumn 2006 forecast (COM) , January 2006 update of the stability programme and the 2007 draft budget.

4. DEBT DEVELOPMENTS AND PROJECTIONS

From 2002 to 2005, the debt-to-GDP ratio increased by about 8.5 percentage points. It breached the 60% of GDP Treaty reference value in 2003, when it increased by 4.2 percentage points to 62.4%, and kept rising thereafter to reach 66.6% of GDP in 2005, its highest level ever. The excess over the 60% reference value was mainly due to developments in the deficit, amplified in some years by stock-flow adjustments[15].

Bringing the debt-to-GDP ratio below 60% of GDP by 2010 is one of the two medium-term objectives presented in the 2006 update of the stability programme, which integrated some of the proposals for debt reduction of the "Pébereau report"[16]. The 2007 draft budget anticipates a reduction by 2 percentage points of the debt-to-GDP ratio in 2006 and by 1 percentage point

15 In 2003, France switched the assets of the pension reserve fund (FRR, *Fonds de Réserve pour les Retraites*) from government bonds to private bonds and shares and participated in the increase of the share capital of France Télécom. These operations contributed to the increase in the gross debt-to-GDP ratio by 2 percentage points in 2003. Also in 2005, more than 1 percentage point of the surge in the debt-to-GDP ratio to 66.6% was linked to stock-flow adjustments in connection with the acquisition by the FRR of substantial financial assets and of complementary pension schemes, and with an accumulation of liquidities (following the change in December 2005 in corporate tax legislation which advanced some of the 2006 first instalment payment to the last 2005 instalment). The rest was linked to the difference between cash and accrual expenditure recording in connection with the change in the recording of military expenditures and the recording of the "soulte EDF" (as a large share of the payments already recorded as revenue will be collected over the next 20 years).

16 The Pébereau Commission, an independent committee appointed by the French Minister of Finance in July 2005 to analyse the public debt and to determine the debt-reduction possibilities, published its report in mid-December 2005 and received large attention from the media and political stakeholders. An analysis is presented in the Commission services' working document for the Commission assessment of the January 2006 French stability programme (http://ec.europa.eu/economy_finance/about/activities/sgp/country/commwd/fr/com_fr20052006.pdf).

in 2007. In 2006, this reduction is planned to stem from the implementation of an intensified debt reduction strategy based on: (a) full allocation of the privatisation receipts to debt reduction for about 1% of GDP, as well as (b) a better day-to-day cash-flow management by the French Debt Agency and a better overall management of the debt of the different general government entities, together reducing the debt by roughly another 1% of GDP. Indeed, the ratio already decreased from 66.6% of GDP in 2005 to 65.4% of GDP in the second quarter of 2006. In 2007, half of the 1 percentage point reduction in the debt-to-GDP ratio would stem from privatisation receipts and the rest from a further improvement of the cash-flow management of the general government debt.

According to the Commission services' autumn 2006 forecast, the general government gross debt is expected to fall further to 64.6% of GDP in 2006 and around 63% of GDP by 2008 (on a no-policy change basis).

The medium-term strategy published in the 2007 draft budget foresees that the debt ratio would be close to the Treaty reference value at 60.7% of GDP in 2009 and below it in 2010 at 58% of GDP (which is more ambitious than that in the January 2006 update of the stability programme).

5. OTHER CONSIDERATIONS

At the time of the 104(7) recommendation, the Council also noted "the commitment of the French authorities to ensure a tighter control of expenditures in 2003" and welcomed "the commitment of the French government to achieve the pension reform already in process to secure the long-term sustainability of public finances".

Since 2003, the State sector has always respected its zero-volume growth norm for expenditures and should enhance its expenditure control by progressively going towards a zero nominal expenditure growth norm by 2010 as announced in the January 2006 update of the stability programme. The 2007 draft budget is indeed based on a stricter norm for the State, as State expenditure is expected to decrease by 1 percentage point in volume terms in 2007. A better expenditure control has also been ensured regarding the health-care sector as the national target (Objectif National de Dépenses d'Assurance Maladie, ONDAM) was almost respected (the deviation from the target growth rate was contained to 0.1 percentage point) in 2005 for the first time in years notably thanks to the health-care reform of 2004. Among other things, this reform put into place an alert committee that recommends measures in case of emerging substantial deviations from target. The January 2006 update of the stability programme was aiming at a sort of "internal stability pact" which would have constituted of expenditure norms for all sub-sectors of the general government. However, no concrete progress has yet been made concerning local administration and the social security sector as a whole although the setting-up of a public finance conference, gathering all actors of public finance management once per year, is likely to increase awareness and ownership of the consolidation efforts in public finances.

As regards the pension reform, the 2003 large-scale reform significantly reduced the expected increase in expenditures in pensions between 2004 and 2050, to about 2% of GDP. This reform introduced an increase in the number of contribution years entitling to a full pension over the period 2004-2020. Up to 2008, this increase in contribution years only concerns the public sector; subsequently, most public and private schemes are meant to keep the ratio between the number of contribution years and the number of years in pension constant by applying an automatic rule. As underlined in the January 2006 update of the stability programme, the increase in contribution years entitling to a full pension is still subject to change after the opinion of an independent Commission scheduled to meet in 2008. It is therefore not clear at this stage whether there will be any modification of the current increase in the contribution period and, if any, whether this would strengthen or soften the eligibility criteria for a full pension. In the report on "Long-term sustainability of public finances in the European Union" published in October 2006[17], it was concluded that overall, France appeared to be at medium risk with regard to the sustainability of public finances.

6. CONCLUSIONS

After increasing from 3.2% of GDP in 2002 to 4.2% of GDP in 2003, the general government deficit decreased to 3.7% of GDP in 2004 and further to 2.9% in 2005, below the 3% of GDP reference value. The structural adjustment (i.e. the improvement in the cyclically-adjusted balance net of one-off and other temporary measures) in that year amounted to 0.6% of GDP. The reduction below the threshold in 2005 benefited from substantial one-off revenues but the deficit is expected both by the French authorities and the Commission services to be further reduced to 2.7% of GDP in 2006 and to keep declining to about 2% in 2008. Moreover, the recourse to one-offs is limited in 2006 (¼% of GDP) and negligible or zero thereafter. This suggests that the deficit has been brought below the 3% of GDP ceiling in a credible and sustainable manner.

After rising for years, the debt-to-GDP ratio has started to decrease from 66.6% in 2005 to 65.4% of GDP in the second quarter of 2006. According to the Commission services' autumn 2006 forecast, the general government gross debt is expected to fall further to 64.6% of GDP in 2006 and around 63% of GDP by 2008 (on a no-policy change basis).

From an overall assessment, it follows that the excessive deficit situation in France has been corrected. Accordingly, the Commission recommends to the Council to abrogate its decision on the existence of an excessive deficit in France.

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[17] European Commission (2006), Directorate-General for Economic and Financial Affairs, 'The Long-term Sustainability of Public Finance in the European Union', *European Economy*, No 4/2006.

Recommendation for a

COUNCIL DECISION

abrogating Decision 2003/487/EC on the existence of an excessive deficit in France

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Council Decision 2003/487/EC[18], following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in France. The Council noted that the general government deficit was 3.1% of GDP in 2002, above the 3% of GDP Treaty reference value, and projected both by the French authorities and the Commission services to be above 3% in 2003, while the general government gross debt stood at 58.2% of GDP, and was very likely to breach the 60% Treaty reference value in 2003.

(2) On 3 June 2003, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[19] (EDP), the Council made a Recommendation, based on a recommendation from the Commission, addressed to France with a view to bringing the excessive deficit situation to an end by 2004 at the latest. The recommendation was made public.

(3) In October 2003, the Commission considered that the measures taken by France had been insufficient to respect the Recommendation of 3 June 2003 and recommended to step-up the excessive deficit procedure. Instead, on 25 November 2003, the Council adopted conclusions addressing recommendations to France for the correction of the deficit by 2005, which were annulled by the Court of Justice of the European Communities on 13 July 2004[20]. On 14 December 2004, the Commission adopted a Communication[21] to the Council which concluded that 2005 should be considered as the relevant deadline for the correction. It also concluded that actions taken by France

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[18] OJ L 165, 3.7.2003, p. 29.

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

[20] Case C-27/04, Commission vs Council, [2004] ECR I-6649.

[21] Communication from the Commission to the Council: *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.

until then were broadly consistent with a correction of the excessive deficit by 2005. On 18 January 2005, the Council concurred with this view.

(4) In accordance with Article 104(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(5) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the procedure. As part of the application of this Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community[22].

(6) Based on data provided by the Commission (Eurostat) in accordance with Article 8g(1) of Regulation (EC) No 3605/93 following the notification by France before 1 October 2006 and on the Commission services' Autumn 2006 forecast, the following conclusions are warranted:

– The general government deficit, after rising from 3.2% of GDP in 2002 to 4.2% of GDP in 2003, was reduced to 3.7% of GDP in 2004 and further to 2.9% of GDP in 2005, which is below the 3% of GDP deficit reference value.

– Over the period 2004-2005, the structural adjustment (i.e. the improvement in the cyclically-adjusted balance net of one-off and other temporary measures) reached 1 percentage point of GDP: 0.4% in 2004 and 0.6% in 2005. Indeed, although the reduction in the headline deficit in 2005 below the 3% Treaty reference value benefited from substantial one-off revenues and higher-than-expected tax revenues, the deficit reduction was also driven by a better expenditure control at the State and health-care sector levels. Notably, the annual increase in spending in the health-care sector was drastically reduced compared to previous years as the measures decided as part of the 2004 health-care reform are bearing fruit.

– For 2006, the Commission services' autumn 2006 forecast projects the deficit to be reduced further to 2.7% of GDP, better than the target set in the January 2006 update of the stability programme (2.9%). The deficit reduction is expected to be driven by a further fall of the annual spending growth rate in the health-care sector and the continuous expenditure control at the State level which is expected to meet its target of zero-volume expenditure growth. The recourse to one-offs would be limited to ¼% of GDP. The autumn forecast projects for 2007 a further decline in the deficit to 2.6% of GDP (with a recourse to one-offs limited to 0.05% of GDP) and 2.2% of GDP in 2008 (on a no-policy change basis and without one-offs). This indicates that the deficit-to-GDP ratio has been brought below the 3% of GDP ceiling in a credible and

[22] OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

sustainable manner. The improvement in the structural balance (the cyclically-adjusted-balance net of one-offs) is estimated at 0.5%, 0.3% and 0.6% of GDP in 2006, 2007 and 2008, respectively. This also has to be seen against the progress needed towards the medium-term objective (MTO) of a balanced structural position as set by the French authorities.

– After rising from 58.2% of GDP in 2002 to 66.6% of GDP in 2005, breaching the 60% of GDP Treaty reference value in 2003, the debt-to-GDP ratio decreased to 65.4% of GDP in the second quarter of 2006. According to the Commission services' autumn 2006 forecast, the general government gross debt is expected to fall further to 64.6% of GDP in 2006 and around 63% of GDP by 2008 (on a no-policy change basis).

(7) In the view of the Council the excessive deficit in France has been corrected and Decision 2003/487/EC should therefore be abrogated.

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in France has been corrected.

Article 2

Decision 2003/487/EC is hereby abrogated.

Article 3

This Decision is addressed to the French Republic.

Done at [Brussels], [30 January 2007].

For the Council
The President