



Brussels, 5.3.2014
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COMMISSION RECOMMENDATION

of 5.3.2014

**regarding measures to be taken by France in order to ensure a timely correction of its
excessive deficit**

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 473/2013 of the European parliament and of the Council of 21 May on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area¹, and in particular Article 11(2) thereof,

Whereas:

- (1) According to Article 126 of the Treaty on the Functioning of the European Union (TFEU), Member States shall 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) On 27 April 2009, the Council decided, in accordance with Article 126(6) TFEU that an excessive deficit existed in France. On 21 June 2013, it issued a recommendation to correct the excessive deficit by 2015 at the latest², in accordance with Article 126(7) TFEU 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 procedure³. France was called upon to reduce its deficit to 3.9% of GDP in 2013, 3.6% in 2014 and 2.8% in 2015, which was considered consistent with delivering an improvement in the structural balance of 1.3% of GDP in 2013, 0.8% in 2014 and 0.8% in 2015, based on the extended Commission Spring 2013 forecast (EDP baseline scenario hereafter).
- (4) The Commission reviewed the report on effective action submitted by France on 1 October 2013 and considered that France had taken effective action against the background of the Commission Autumn 2013 forecast, published on 5 November 2013, and that no further steps in the Excessive Deficit Procedure were then needed. In its Opinion of 15 November 2013, the Commission also assessed that the Draft Budgetary Plan of France was compliant with no margin.
- (5) Based on the latest information available, the Commission Winter 2014 forecast (Commission forecast hereafter) projects the general government deficit to (have) reach(ed) 4.2% of GDP in 2013 and 4.0% of GDP in 2014, therefore above the levels recommended by the Council. On the basis of current policy, the deficit is expected to remain significantly above the 3% of GDP reference value in 2015. The economic recovery has been slightly stronger than anticipated in the EDP baseline scenario. In

¹ OJ L 140, 27.5.2013, p. 11.

² All documents related to the excessive deficit procedure of France can be found at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/france_en.htm.

³ OJ L 209, 2.8.1997, p. 6.

particular, real GDP grew by 0.3% in 2013 and is expected to further expand by 1.0% in 2014 versus -0.1% and 0.6%, respectively, projected at that time. However, this has not translated into higher tax receipts but instead a sizeable revenue shortfall was recorded in 2013.

- (6) Based on the Commission forecast, the Commission considers that there is a significant risk of non-compliance with the recommended fiscal effort both in 2013 and 2014. The improvement in the structural balance underlying the projected headline deficit figures is estimated at 0.8% and 0.5% of GDP, respectively. When correcting for revisions to potential GDP growth estimates and shortfalls in tax receipts compared with the EDP baseline scenario, the structural effort amounts to 1.1% and 0.6%, below the levels recommended by the Council.

The assessment of the fiscal effort based on the forecast (corrected) improvement in the structural balance is complemented by a bottom-up assessment of the additional discretionary measures implemented by the authorities since the Council recommendation of 21 June 2013 and not included in the EDP baseline scenario. For both 2013 and 2014, this assessment points to a shortfall of 0.2% of GDP compared to the amount of measures deemed necessary at the time of the recommendation to achieve the structural adjustment target. Regarding 2014, the bottom-up estimate of the fiscal effort adds up to 0.8% of GDP and thus falls short of the 'above 1% of GDP' amount of measures recommended by the Council.

Overall, the expected deviation from the recommended fiscal effort in 2014 is higher than estimated at the time of the Commission assessment of the Draft Budgetary Plan. This can be to a large extent explained by the expected loss of tax receipts resulting from the revenue measures contained in the Draft Budgetary Plan which were subsequently either amended by Parliament or cancelled by the Constitutional Court, and from the suspension of a green tax on heavy goods vehicles, the so-called 'éco-taxe poids lourds'. Regarding the latter, the authorities have indicated that they would compensate it by additional savings, but no specific announcements have been made so far.

Risks to the budgetary outcome projected for 2014 in the Commission forecast, and hence to the underlying improvement in the structural balance are tilted to the downside. These risks stem from the uncertainties regarding the achievement of the spending targets and from a possibly lower-than-expected yield of some revenue discretionary measures in light of the sizeable revenue shortfalls experienced in 2013.

- (7) Regulation (EU) No 473/2013 complements the Stability and Growth Pact with an enhanced coordination and surveillance framework for budgetary policies in euro area Member States. In particular, it allows for a closer monitoring of those Member States which are in the excessive deficit procedure, in order to ensure a timely correction of excessive deficits in the euro area. In that context, it provides for the Commission to adopt a recommendation to a Member State when it detects a risk of non-compliance with the deadline recommended by the Council to correct the excessive deficit.
- (8) According to Article 11(2) of Regulation (EU) No 473/2013, the Commission in its recommendation may ask for the full implementation of the measures provided for in the initial recommendations and/or the adoption of other measures within a timeframe consistent with the deadline for the correction of its excessive deficit,

HAS ADOPTED THIS RECOMMENDATION:

France should make efforts to ensure full compliance with the Council recommendation of 21 June 2013.

- (i) To this end, France should take the necessary steps to ensure that the structural effort recommended by the Council is met.
- (ii) France should report on measures responding to this recommendation in a dedicated section of its forthcoming 2014 Stability Programme.

This recommendation is addressed to France.

Done at Brussels, 5.3.2014

For the Commission

Olli REHN

Vice-President

