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Commission assesses the French stability programme

The European Commission has published a recommendation to the Council of Ministers on the French stability programme. The recommendation is made in accordance with the new reinforced procedures of the Stability and Growth Pact for the monitoring of the economic and budgetary policies of the countries of the European Union (EU). The French stability programme covers the period 1999-2002 and projects a decline in the general government deficit ratio to between 0.8% or 1.2% of GDP by the end of the period according to two alternative macroeconomic scenarios. The debt to GDP ratio would stabilise in 1999 or 2000 and then start to decline while remaining below the 60% of GDP reference value. The Commission concludes that the envisaged medium-term target is in line with the Stability and Growth Pact requirements. However, the Commission considers that the programme offers no safety margin to accommodate the financial consequences of new policy measures or unforeseen developments. Strict control of government expenditure, possibly including in-year corrective action, will be crucial to ensure that the budgetary objectives of the programme are met. The Commission believes the structural policy measures announced in the programme to be appropriate and in line with the Broad Economic Policy Guidelines agreed at the Cardiff European Council. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the French programme on 15 March 1999.

The Commission's recommendation is adopted on the initiative of President Jacques Santer and Yves-Thibault de Silguy, the Commissioner responsible for economic, monetary and financial affairs, as part of the procedures in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the EU.

The Stability and Growth Pact, agreed by the Amsterdam European Council in June 1997, requires countries participating in the euro zone to present stability programmes to the Council and the Commission. These programmes aim to demonstrate how countries intend to meet the objectives of the Pact and in particular the medium-term goal of a budget close to balance or in surplus. The Commission's analysis considers in particular whether the medium-term budgetary target provides a sufficient margin for normal cyclical fluctuations without exceeding the reference value of 3% of GDP. The programmes cover the current year and at least three future years. (The French programme covers the period 1999-2002).

The Commission’s main conclusions are the following :

- the programme presents two alternative macroeconomic scenarios: according to the favourable scenario, real GDP growth will reach 2.7% in 1999 and then accelerate to 3%, on average, for the period 2000-2002; under the cautious scenario real GDP growth, after decelerating to 2.4% in 1999 from 3.1% in 1998, would reach 2.5% on average in the period to 2002. The cautious macroeconomic scenario seems more plausible, taking into account the normal growth potential and past performance of the French economy, while the favourable scenario may be considered as the upper limit of growth projections;
- the programme envisages a further reduction of the deficit ratio from an estimated 2.9% of GDP in 1998 to between 0.8% and 1.2% in 2002, depending on which of the two growth scenarios is used. Government expenditure is subject to a limit of 1% annual real growth on average over the period 2000-2002. This principle provides the anchor of the budgetary consolidation process;
- as a result of this strategy, the ratio of government expenditure to GDP is expected to be reduced over the period, allowing for a decline in the government deficit and for some reduction in the tax burden;
- the success of this strategy of expenditure ceilings requires an effective corrective mechanism to rein in expenditure immediately if slippage is detected; the need for such a mechanism is recognised by the authorities though it is not yet specified. To be successful it should operate, if necessary, in-year as well as in the context of annual budget settlements;
- the envisaged budgetary positions for 2002, under both the favourable and cautious scenarios, are consistent with the Stability and Growth Pact as they provide a sufficient margin to prevent the deficit from exceeding the 3% of GDP reference value in the event of normal cyclical movements;
- however, the Commission considers that the programme's deficit targets constitute a minimum position which offers no safety margin for the consequences of weaker than expected growth, budgetary pressures of the ageing population, costs of any new policies and the uncertain impact of existing major structural reforms. A more ambitious budgetary adjustment would have been welcome. Therefore the Commission recommends a strict implementation of the programme, including through additional measures to correct any slippage against the annouced objectives.
- the measures aimed at creating favourable conditions for employment and enhancing economic efficiency, by promoting innovation, risk-taking and the modernisation of the public sector appear appropriate; their effective implementation and the continuation of the reform effort are essential for the success of the programme.

Key figures of the French stability programme

	1998	1999	2000	2001	2002
Real GDP growth (annual % change)	3.1	2.4–2.7	2.5-3.0 (annual average)		
Gen. Gov. budget deficit (% of GDP)	2.9	2.3	1.7–2.0	1.2–1.6	0.8–1.2
Government debt (% du PIB)	58.2	58.7–58.9	58.5-59.0	57.9-58.8	57.1-58.3
Public expenditure (% of GDP)	54.3	53.5	50.6–51.5 (end of period)		
Tax burden (% of GDP)	45.9	45.7	44.9–45.2 (end of period)		
Inflation (Consumption deflator)	0.9	1.3	1.5 (annual average)		
Employment growth in private sector (annual % change)	1.8	1.8	1.7–2.1 (annual average)		