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Commission assesses updated Stability Programme of France

The European Commission today adopted a Recommendation to the Council of Ministers on the updated stability programme of France ('Programme pluriannuel de finances publiques, 2001-2003'). The Commission concluded that the medium-term budgetary targets are in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. Budgetary projections are based on two macroeconomic scenarios for the period 2001-2003, one assuming annual average real GDP growth rate of 2.5% and one 3%. Growth in 2000 is assumed to reach at least 3%. On the basis of a better than initially planned outcome for the general government deficit in 1999, the update projects a decline in the general government deficit ratio to 1.7% of GDP in 2000, and to between 0.3% and 0.5% of GDP by 2003. During the same period, the debt ratio is expected to fall from slightly below 60% of GDP in 1999 to between 57.2% or 57.7% of GDP at the end of 2003. On the basis of the Commission's Recommendation, the Council is expected to adopt a formal opinion on the updated French programme on [13 March 2000].

The Commission Recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, as part of the procedures set in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact, adopted by the European Council at its meeting in Amsterdam in June 1997, requires Member States participating in the euro-zone to present stability programmes and their updates to the Council and the Commission. The programmes provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term budgetary target of a general government budget close to balance or in surplus which will enable their finances to withstand normal cyclical fluctuations without exceeding the reference value of a deficit of 3 % of GDP. The French updated programme was submitted on 28 January 2000, and additional information was presented by the French authorities on 23 February 2000.

The Commission's Recommendation highlights the following:

- The macroeconomic projections underlying the updated stability programme of France assume GDP growth rate of at least 3% in 2000, and present for two scenarios for the period 2001 to 2003, with average GDP growth rates of 2.5% and 3% respectively. Given the latest developments and outlook, the higher growth scenario may be seen as a more realistic basis for economic policy.

- The general government deficit for 1999 was better than projected in the initial stability programme submitted in January 1999. The better results are, however, exclusively due to the buoyancy of revenue, especially direct taxes. Government expenditure in real terms was higher than projected in last year's programme. This was mainly due to lower-than-expected prices, (which lead to an overshooting in real ceilings even if the nominal budget credits are respected) but also to a new slippage in health-care spending.
- The budgetary strategy developed by the updated programme remains based on control of public spending in real terms, which is subject to a limit of 1.3% average annual growth rate over the period 2000-2003. Government expenditure as a percentage of GDP is expected to decline by between 2.8 and 3.5 percentage points of GDP, depending on the alternative scenarios, between 1999 and 2002. This spending norm is the cornerstone of the French budgetary consolidation process. It aims to address the problem of relatively high government expenditure in France and the negative impact it may have on economic efficiency.
- Such a strategy, however, is highly dependent on a prompt correction of any departure from targets. Whenever possible such corrections should be implemented the same year, or at the latest the following year.In this context, the Commission notes that the excessive real expenditure in 1999 is not expected to be offset in 2000 or beyond.
- In case of wider budgetary room of manoeuvre, as a result of higher growth or for other reasons – including a deficit outcome for 1999 lower than estimated in the programme (2.1% of GDP) –, the opportunity should be taken to reduce the deficit faster. The allocation of budgetary margins for larger tax cuts than those projected in the updated stability programme would be considered as pro-cyclical.
- The budgetary position underlying the French updated stability programme is in line with the requirements of the Stability and Growth Pact. The general government budget deficit is projected to reach the minimum benchmark deficit position in 2001, providing therefore a sufficient safety margin to prevent the deficit from breaching the 3% of GDP threshold in a normal cyclical downturn. The updated stability programme of France is consistent with the 1999 Broad Economic Policy Guidelines.

Key figures of the French updated stability programme:

	1999	**2000**	**2001**	**2002**	**2003**
Real GDP growth (annual % change)	2.7	≥ 3	2.5 / 3.0 (annual average)		
Gen. Gov. budget deficit (% of GDP)	2.1	1.7	1.2 / 1.3	0.7 / 0.9	0.3 / 0.5
Government gross debt (% of GDP)	< 60	59.4	59.0	58.2/58.4	57.2/57.7
Public expenditure (% of GDP)	53.9	53.0	52.0/52.2	51.2/51.7	50.4/51.1
Tax burden (% of GDP)	45.3	44.8	44.4/44.6	44.1/44.4	43.7/44.2
Inflation (Private consumption deflator)	0.8	:	1.3		
Note: When two figures are shown, they correspond to the two macroeconomic scenarios of 3% and 2.5% GDP growth rate.					