



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 6 July 2004

11221/04

**ECOFIN 273
UEM 143**

NOTE

from : General Secretariat of the Council
to : Delegations

Subject: Council Recommendation to Slovakia with a view to bringing an end to the situation of an excessive government deficit - Application of Article 104(7) of the Treaty

Delegations will find attached the Council's Recommendation to Slovakia with a view to bringing an end to the situation of an excessive government deficit - Application of Article 104(7) of the Treaty, as adopted by the ECOFIN Council on 5 July 2004.

The text of this Recommendation is made public in agreement with the Slovak government.

Annex

COUNCIL RECOMMENDATION TO SLOVAKIA
with a view to bringing an end to the situation of an excessive government deficit

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(7) 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;
- (3) The Council has decided on 5 July 2004, in accordance with Article 104(6), that an excessive deficit exists in Slovakia;
- (4) Having decided on the existence of an excessive deficit in Slovakia, the Council, in accordance with Article 104(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97, is required to make at the same time recommendations to the Member State concerned with a view to bringing that situation to an end within a given period;

- (5) According to Article 3(4) of Council Regulation (EC) No 1467/97, this recommendation should specify that effective action is to be taken by the Member State concerned within four months at most and that the correction of the excessive deficit should be completed in the year following its identification unless there are special circumstances. Such special circumstances are present in the case of Slovakia namely because of the ongoing structural shift to a modern service-oriented market economy accompanying the process of real convergence;
- (6) The existence of special circumstances authorises the Council to allow the correction of the excessive deficit in a medium-term framework. It is appropriate to consider the convergence programme submitted by Slovakia in May 2004, and its subsequent updates, and the Council Opinions thereof as providing the adjustment path for the correction of the excessive deficit. The convergence programme of May 2004 plans to complete the correction of the excessive deficit by 2007, with the following annual targets for the general government deficit: 4.0% of GDP in 2004, 3.9% of GDP in 2005, 3.9% of GDP in 2006 and 3.0% of GDP in 2007. The adjustment path is based on a macro-economic scenario which, according to the Council Opinion of 5 July 2004 on the convergence programme, is plausible;
- (7) In the view of the Council, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy;

HEREBY RECOMMENDS:

- the Slovak authorities to put an end to the present excessive deficit situation as rapidly as possible;
- the Slovak authorities to take action in a medium-term framework in order to achieve their objective of bringing the deficit below 3% of GDP in a credible and sustainable manner by 2007 at the latest, in accordance with the path for deficit reduction as specified in the Council Opinion of 5 July 2004 on the convergence programme submitted in May 2004;

- the Slovak authorities to implement with vigour the measures envisaged in the May 2004 convergence programme, in particular those related to the proposed further health care reforms and further public sector rationalisation;
- the Slovak authorities to accelerate the fiscal adjustment if the implemented structural reforms result in higher growth than expected in the convergence programme of May 2004, in particular by dedicating any higher-than-budgeted revenues primarily to faster deficit reduction;
- the Slovak authorities to take effective action by 5 November 2004 regarding the measures envisaged to achieve the 2005 deficit target.

In addition, the Council invites the Slovak authorities to strengthen the binding character of the three-year budgetary framework by introducing detailed medium-term expenditure ceilings to be adopted by parliament.

This recommendation is addressed to the Slovak Republic.

Done at Brussels, 5 July 2004

For the Council

The President