EUROPEAN
COMMISSION

Brussels, 22.11.2017
COM(2017) 801 final

Recommendation for a

COUNCIL DECISION

abrogating Decision 2008/713/EC on the existence of an excessive deficit in the United Kingdom

Recommendation for a

COUNCIL DECISION

abrogating Decision 2008/713/EC on the existence of an excessive deficit in the United Kingdom

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) On 8 July 2008, following a recommendation from the Commission, the Council decided, by Council Decision 2008/713/EC in accordance with Article 104(6) of the Treaty establishing the European Community, that an excessive deficit existed in the United Kingdom.[1] The Council noted that, according to the EDP data notified by the United Kingdom authorities in March 2008, the United Kingdom's general government deficit in 2008-09 was expected to reach 3.2 % of GDP, thus exceeding the 3 % of GDP Treaty reference value. Furthermore, following the publication of the March 2008 budget, a policy announcement on 13 May 2008 reducing personal income tax in 2008-09 was expected to further increase the planned deficit in that financial year. Adding this measure to the Commission 2008 spring forecast implied a deficit of 3.5 % of GDP in 2008-09. The excessive deficit was also not considered temporary as the Commission forecast, on the basis of unchanged policies, estimated a deficit in 2009-10 of 3.3 % of GDP. The Council further noted that the general government debt ratio remained well below the 60 % reference value, although it was projected to be on a rising trend up to 2009-10.

(2) On the same date, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97, the Council, based on a recommendation from the Commission, addressed a Recommendation to the United Kingdom with a view to bringing the excessive deficit situation to an end by financial year 2009-10 at the latest. The Council also set a deadline of 8 January 2009 for effective action to be taken.

(3) In accordance with Article 104(8) of the Treaty, the Council decided, on 27 April 2009, that the United Kingdom had not taken effective action in response to the Council Recommendation of 8 July 2008.[2]

---

[1] Council Decision 2008/713/EC of 8 July 2008 on the existence of an excessive deficit in the United Kingdom (OJ L 238, 5.9.2008, p. 5).

[2] Council Decision 2009/409/EC of 27 April 2009 establishing, in accordance with Article 104(8) of the Treaty, whether effective action has been taken by the United Kingdom in response to the Council Recommendation of 8 July 2008 pursuant to Article 104(7) (OJ L 132, 29.5.2009, p. 11).

(4) Recognising that the United Kingdom's budgetary position in 2009-10 resulted from the implementation of measures amounting to around 1.5 % of GDP, which were an appropriate response to the European Economic Recovery Plan, and the free play of automatic stabilisers, on 2 December 2009 the Council issued a revised Recommendation under Article 126(7) of the TFEU, recommending that the United Kingdom put an end to the excessive deficit situation by 2014-15. Specifically, in order to bring the general government deficit below 3 % of GDP in a credible and sustainable manner, the United Kingdom was recommended to ensure an average annual fiscal effort of 1¾ % of GDP between 2010-11 and 2014-15. In its Recommendation of 2 December 2009, the Council established a deadline of 2 June 2010 for effective action to be taken in line with the Article 3(4) of Regulation (EC) No 1467/97.

(5) On 6 July 2010, the Commission concluded that, based on the Commission 2010 spring forecast, the United Kingdom had taken effective action in compliance with the Council Recommendation of 2 December 2009 under Article 126(7) of the Treaty.

(6) On 19 June 2015, in accordance with Article 126(8) of the Treaty, the Council decided that the United Kingdom had not taken effective action in response to the Council Recommendation of 2 December 2009.[3] The Council noted that the United Kingdom had experienced a large fall in real GDP growth as a result of the global economic and financial crisis in 2008 and 2009, which had also affected its public finances. The United Kingdom had subsequently implemented a consolidation plan and the general government deficit had fallen, as a percentage of GDP, each year between the 2009-10 and 2014-15 financial years. In contrast, the general government debt ratio had continued to increase over this period, driven mainly by the headline deficit, but also by financial sector interventions. The Council concluded that, despite a fiscal consolidation programme being set out and implemented, the United Kingdom had not put an end to its excessive deficit by 2014-15. Furthermore, the United Kingdom had not adhered to the average annual fiscal effort of 1¾ % of GDP that had been recommended by the Council on 2 December 2009.

(7) On the same date, in accordance with Article 126(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97, the Council, based on a recommendation from the Commission, addressed a Recommendation to the United Kingdom to correct the excessive deficit by financial year 2016-17. Specifically, the United Kingdom was recommended to reach a headline deficit of 4.1 % of GDP in 2015-16 and 2.7 % of GDP in 2016-17, which was projected to be consistent with delivering an improvement in the structural balance of 0.5 % of GDP in 2015-16 and 1.1 % of GDP in 2016-17, based on the updated Commission 2015 spring forecast.

(8) On 16 November 2015, the Commission concluded that the United Kingdom had taken effective action towards correcting the excessive deficit by financial year 2016-17, as recommended by the Council on 19 June 2015.

(9) In accordance with Article 4 of the Protocol (No 12) on the excessive deficit procedure annexed to the Treaty on the European Union and to the TFEU, the Commission provides the data for the implementation of the procedure. As part of the application of that Protocol, Member States are to notify data on government deficits and debt and

---

[3] Council Decision 2015/1098 of 19 June 2015 establishing that no effective action has been taken by the United Kingdom in response to the Council Recommendation of 2 December 2009 (OJ L 180, 8.7.2015, p. 1).

other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 3 of Council Regulation (EC) No 479/2009.[4]

(10) The Council takes decisions to abrogate decisions on the existence of an excessive deficit on the basis of notified data. Moreover, a decision on the existence of an excessive deficit should be abrogated only if the Commission forecasts indicate that the deficit will not exceed the Treaty reference value of 3 % of GDP over the forecast horizon.[5]

(11) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009, following the 2017 Convergence Programme, the September 2017 notification by the United Kingdom, and the Commission 2017 autumn forecast, the following conclusions are justified:

– The United Kingdom has met the recommended general government deficit targets in recent years. After peaking at 10 % of GDP in 2009-10, the nominal general government deficit has followed a steadily declining trend, falling to 4 % in 2015-16 and 2.3 % in 2016-17, in line with the Council Recommendation of 19 June 2015. Fiscal consolidation undertaken during the period has largely been expenditure based, with total current expenditure falling from 42.9 % of GDP in 2009-10 to 38 % of GDP in 2016-17. A rise in the government revenue ratio, from 37.4 % of GDP in 2009-10 to 38.6 % of GDP in 2016-17, has also contributed, albeit to a lesser extent.

– The 2016-17 Convergence Programme, submitted by the United Kingdom authorities on 27 April 2017 and covering the period 2016-17 to 2021-22, projected an increase in the general government deficit to 2.8 % of GDP in 2017-18 followed by a fall to 1.9 % of GDP in 2018-19. This forecast was based on a planned general government deficit of 2.7 % in 2016-17, as per the EDP data notified by the United Kingdom authorities in March 2017. Since the submission of the Convergence Programme, the Office for National Statistics (ONS) has revised down its estimate of the general government deficit in 2016-17 to 2.3 % of GDP. While the United Kingdom authorities did not subsequently publish an updated forecast for the general government deficit, the Commission 2017 autumn forecast projects deficits of 2.5 % in 2017-18, 1.8 % in 2018-19, and 1.3 % in 2019-20, based on a no-policy-change assumption. Thus, the deficit is set to remain below the Treaty reference value of 3 % of GDP over the forecast horizon.

– According to its 2017 autumn forecast, the Commission estimates the structural balance, which is the general government balance adjusted for the economic cycle and net of one-off and other temporary measures, to have improved by 3.2 % of GDP between 2008-09 and 2016-17.

– The United Kingdom's general government gross debt ratio has increased significantly since the Council decided, on 8 July 2008, that an excessive deficit existed in the United Kingdom. The general government debt ratio increased from 41 % of GDP in 2007-08 to 86.8 % in 2016-17, reflecting

[4] Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community OJ L 145, 10.6.2009, p. 1.

[5] In line with the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes" of 3 September 2012. See: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

higher nominal general government deficits as well as financial sector interventions during this period. According to the Commission 2017 autumn forecast, the debt-to-GDP ratio is expected to have peaked in 2016-17 and to decrease gradually to 82.9 % of GDP in 2019-20.

(12) In accordance with Article 126(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.

(13) In the view of the Council, the excessive deficit in the United Kingdom has been corrected, and Decision 2008/713/EC should therefore be abrogated.

(14) As from 2017-18, which is the financial year following the correction of the excessive deficit, the United Kingdom is subject to the preventive arm of the Stability and Growth Pact and should progress towards the minimum medium-term budgetary objective at an appropriate pace, including respecting the expenditure benchmark, and comply with the debt criterion in accordance with Article 2(1a) of Regulation (EC) No 1467/97,

HAS ADOPTED THIS DECISION:

Article 1

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

Article 2

Decision 2008/713/EC is hereby abrogated.

Article 3

This Decision is addressed to the United Kingdom of Great Britain and Northern Ireland.

Done at Brussels,

For the Council
The President