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Press release | 22.02.2013

Eurozone fiscal policy

Laudable French deficit reduction effort should be rightly recognised

The European Commission today published its Winter Economic Forecast (1). The figures show that France met its structural deficit reduction target in 2012 and is expected to do so in 2013 (2). The Greens underlined that France should be applauded for its effort in meeting its targets, whilst questioning the logic of continuing with the arbitrary structural deficit reduction target. The group also expressed its concern with the Commission's continued one-sided preoccupation with fiscal consolidation. Commenting on the forecast, Green economic affairs spokespersons **Sven Giegold** (Germany) and **Jean-Paul Besset** (France) said:

"France should be applauded for meeting its obligations. The structural deficit reduction target set by Council - 1% GDP per annum - is highly questionable in the current economic context: the fact that the French government went beyond this target is a significant achievement. It is clearly technically, legally and economically wrong to accuse France of not respecting its requirements, as some centre-right politicians have done.

"The Commission has also sensibly mooted extending the deadline for bringing the French deficit below 3% until 2014. Given the headline deficit of 3.7% is not down to a lack of fiscal consolidation but due to the economic crisis, this approach is clearly the right course to take.

"While fiscal consolidation clearly has an important role to play in responding to the Euro crisis, sticking to rigid nominal targets irrespective of the economic context can and has been counterproductive, as the IMF has underlined. The Commission's dogged preoccupation with austerity is not an intelligent and efficient approach, taking into account both the objective of debt reduction and the economic cycle. It is high time the Commission recognised this.

"The Commission has already demonstrated flexibility with regard to Spain's fiscal situation, whilst remaining consistent with the toughened rules of the Stability and Growth Pact. Such flexibility would be even more justified in the case of France, as its economic situation has not been inflated artificially by public or private debt bubbles. There is therefore no logical rational for not letting automatic stabilisers work in the context of the crisis - the only explanation for this can be ideological.

"While the French economic model is in need of structural reforms and its current account deficit is worrying, this can neither be tackled by one-sided austerity nor by blinkered 'old growth' policies. Instead France, and Europe as a whole, needs to invest in a sustainable economic transformation. The recovery for France and

other Euro countries in even deeper difficulty would be less rocky if surplus countries such as Germany would increase green investment and ensure a more equal burden-sharing distribution, resulting in higher imports."

(1) The Winter Economic Forecast can be found at: http://europa.eu/rapid/press-release_IP-13-151_en.htm?locale=en

(2) The forecast revealed an expected French budget deficit of 3.7%/GDP and a reduction of its structural deficit of 1.3%/GDP in 2013, following on from a budget deficit of 4.6%/GDP in 2012 and a reduction of the structural deficit of 1.2% last year.

According to a Council recommendation setting a deadline for the correction of its excessive deficit, France is required to achieve a reduction of its structural deficit by an average of at least 1% of its GDP between 2010 and 2013.

In the framework of the updated Stability and Growth Pact, as adapted by the so-called 'Six Pack', member states under excessive deficit are required to take action to achieve a minimum annual improvement of their structural deficit by at least 0.5% of GDP. In contrast with the 3% criteria for triggering an excessive deficit procedure, structural deficits reflect both deficit developments and the economic cycle.

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Sven Giegold

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