Council of the
European Union

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LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject:	COUNCIL DECISION establishing that no effective action has been taken by the United Kingdom in response to the Council Recommendation of 2 December 2009

COUNCIL DECISION (EU) 2015/…

of

establishing that no effective action has been taken by the United Kingdom in response to the Council Recommendation of 2 December 2009

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(8) thereof,

Having regard to the recommendation from the European Commission, Whereas:

(1) According to Article 126 of the Treaty on the Functioning of the European Union (TFEU) Member States are to avoid excessive government deficits.

(2) Pursuant to paragraph 4 of the Protocol (No 15) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union, the obligation in Article 126(1) of the TFEU to avoid excessive general government deficits does not apply to the UK unless it adopts the euro. Paragraph 5 of that Protocol provides that the UK is to endeavour to avoid an excessive government deficit.

(3) 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. The Stability and Growth Pact includes Council Regulation (EC) No 1467/97[1], which was adopted in order to further the prompt correction of excessive general government deficits.

(4) On 8 July 2008 the Council decided, in accordance with Article 104(6) of the Treaty establishing the European Community (TEC), that an excessive deficit existed in the UK[2] and issued a Recommendation to the country to endeavour to correct the excessive deficit by financial year 2009-10 at the latest, in accordance with Article 104(7) of the TEC and Article 3 of Regulation (EC) No 1467/97. The Council set a deadline of 8 January 2009 for effective action to be taken[3].

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1 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

2 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)

3 All documents related to the excessive deficit procedure of the United Kingdom can be found at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/uk_en.htm

(5) In accordance with Article 104(8) of the TEC, the Council decided, on 27 April 2009, that the UK had not taken effective action in response to the Council Recommendation of 8 July 2008[1].

(6) Recognising that the United Kingdom's budgetary position in 2009-10 resulted from the implementation of measures amounting to around 1½ % 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 UK 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 UK was recommended to: (a) implement the fiscal measures in 2009-10 as planned in the 2009 Budget, avoiding further measures contributing to the deterioration of public finances, and start consolidation in 2010-11 in order to bring the deficit below the reference value by 2014-15; (b) ensure an average annual fiscal effort of 1¾ % of GDP between 2010-11 and 2014-15, which should also contribute to bringing the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus; (c) further specify the additional measures that are necessary to achieve the correction of the excessive deficit by 2014-15, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected. 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.

[1] 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).

(7) On 6 July 2010, the Commission concluded that based on the Commission's 2010 spring forecast, the UK had taken effective action in compliance with the Council Recommendation of 2 December 2009 and considered that no additional step in the excessive deficit procedure was therefore necessary at that point in time.

(8) A new assessment of the action taken by the UK to correct the excessive deficit by 2014-15 in response to the Council Recommendation under Article 126(7) of the TFEU of 2 December 2009, leads to the following conclusions:

– The UK experienced a large fall in real GDP growth as a result of the global economic and financial crisis in 2008-09 that also affected public finances. The general government deficit jumped to 10,9 % of GDP in 2009-10. This was largely brought about by a drop in revenues and higher social security expenditure due to the contraction in economic activity, and stimulus measures announced by the government for 2009-10. The UK implemented a consolidation plan which focussed mainly on spending cuts and put the deficit on a downward trajectory.

– In 2010-11, the general government deficit was 9,1 % of GDP. The measures implemented by the UK that year stem from the 2009 pre-budget report announced in December, the March budget and a second emergency budget in June following the general election. A Spending Review was also published in October 2010. Overall, measures were generally back-loaded and focussed on spending cuts over taxation increases. Over the period to 2014-15, the March budgets, Autumn Statements and Spending Round did not change the original consolidation plans considerably. The programme, that was implemented over five years, focussed on considerable cuts to departmental spending, along with pay freezes and cuts to welfare spending. Overall, the main taxation measures announced comprised an increase in the standard VAT rate, the introduction of and increases in the bank levy, higher social insurance contributions, cuts to the corporate tax rate, increases in the personal income tax allowance, duty rate cuts and tax avoidance measures. From 2012-13, the deficit figures also benefit from the dividend transfers from the Bank of England via the Asset Purchase Facility. Resulting from the implementation of the consolidation plans, the nominal deficit fell each year to 7,7 % of GDP in 2011-12, to 7,6 % of GDP in 2012-13, to 5,9 % of GDP in 2013-14 and to 5,2 % of GDP in 2014-15. The structural deficit was 7,0 % of GDP in 2010-11, 5,9 % of GDP in both 2011-12 and 2012-13, 4,6 % of GDP in 2013-14 and 4,7 % of GDP in 2014-15.

– The average structural effort amounted to 0,7 % of GDP between 2010-11 and 2014-15. When adjusted for the impact of revisions in potential output growth between the current forecast and that underlying the Council Recommendation of 2 December 2009, as well as for the impact of revenue developments as compared to standard elasticities to GDP growth, the average annual adjusted structural effort over the period is estimated at 1,1 % of GDP, below the 1¾ % annual average fiscal effort recommended by the Council.

– The estimated cumulative size of the discretionary consolidation measures set out between the Pre-budget report 2009 and the Autumn Statement 2014 amounts to approximately 3,5 % of GDP between 2010-11 and 2014-15.

– General government gross debt continued to increase over the EDP period reaching 88,4 % of GDP in 2014-15. This worsening of the debt ratio was mainly driven by the headline deficit, but also by financial sector interventions.

(9) These factors lead to the conclusion that, despite the fiscal consolidation programme set out and being implemented, the UK did not put an end to its excessive deficit by 2014-15. Furthermore, the UK did not adhere to the average fiscal effort of 1¾ % which was recommended by the Council on 2 December 2009. Overall, the response by the UK to the Council Recommendation under Article 126(7) of the TFEU of 2 December 2009 has not been sufficient,

HAS ADOPTED THIS DECISION:

Article 1

The United Kingdom has not taken effective action in response to the Council Recommendation of 2 December 2009.

Article 2

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

Done at,

For the Council

The President