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Recommendation for a

COUNCIL DECISION

abrogating Decision 2014/56/EU on the existence of an excessive deficit in Croatia

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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 28 January 2014, following a recommendation from the Commission, the Council decided, by Decision 2014/56/EU[1], in accordance with Article 126(6) of the Treaty, that an excessive deficit existed in Croatia. The Council noted that the general government deficit planned for 2014 was 5.5%, thus above the 3%-of-GDP Treaty reference value. The general government gross debt was planned to reach 62% of GDP in 2014, thus above the 60%-of-GDP Treaty reference value.

(2) 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 Croatia with a view to bringing the excessive deficit situation to an end by 2016 at the latest.

(3) On 2 July 2014, the Commission concluded that Croatia had taken effective action in compliance with Council Recommendation of 28 January 2014 under Article 126(7) of the Treaty.

(4) In accordance with Article 4 of the Protocol on the excessive deficit procedure annexed to the Treaties, 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 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[2].

(5) The Council should take a decision to abrogate a decision 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 3%-of-GDP Treaty reference value over the forecast

[1] Council Decision 2014/56/EU of 28 January 2014 on the existence of an excessive deficit in Croatia (OJ L 36, 6.2.2014, p. 13).

[2] 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).

horizon and the debt ratio fulfils the forward looking element of the debt reduction benchmark[3].

(6) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009, following the April 2016 notification by Croatia, the 2017 convergence programme and the Commission 2017 spring forecast, the following conclusions are warranted:

– In 2016, the general government deficit reached 0.8% of GDP, from 3.4% in 2015. That improvement was mainly driven by (i) rising revenue on the back of strong GDP growth, and (ii) a restraint on the expenditure side. Thus, the deficit was brought below the 3%-of-GDP Treaty reference value within the deadline set by the Council.

– The convergence programme for 2017-2020, submitted by the Croatian government on 27 April 2017, plans the general government deficit to rise to 1.3% of GDP in 2017 and decline back to 0.8% of GDP in 2018. The Commission 2017 spring forecast projects a deficit of 1.1% of GDP in 2017 and 0.9% of GDP in 2018. Thus, the deficit is set to remain below the 3%-of-GDP Treaty reference value over the forecast horizon.

– The structural balance, which is the general government balance adjusted for the economic cycle and net of one-off and other temporary measures, improved by 3.0% of GDP over the period 2014-2016.

– The gross government debt-to-GDP ratio peaked at 86.7% in 2015 and decreased to 84.2% in 2016, on account of strengthening GDP and debt-reducing stock-flow adjustments. The Commission 2017 spring forecast projects the debt ratio to decrease further to 79.4% in 2018, backed by strong nominal GDP growth. On that basis, the 2016 debt ratio fulfils the forward-looking element of the debt reduction benchmark.

(7) 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.

(8) In the view of the Council, the excessive deficit in Croatia has been corrected and Decision 2014/56/EU should therefore be abrogated.

(9) As from 2017, the year following the correction of the excessive deficit, Croatia is subject to the preventive arm of the Stability and Growth Pact. Having reached its medium-term objective already in 2016, Croatia should avoid deviating from it 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 Croatia has been corrected.

[3] 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, available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf.

Article 2

Decision 2014/56/EU is hereby abrogated.

Article 3

This Decision is addressed to the Republic of Croatia.

Done at Brussels,

For the Council
The President