II

*(Acts whose publication is not obligatory)*

# COUNCIL

## COUNCIL DECISION

**of 24 July 1978**

**on the adaptation of public budgets for 1978 and the preparation of public budgets for 1979 in the framework of the Community's concerted action**

(78/658/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Decision 74/120/EEC of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community [1], and in particular Articles 1 and 3 thereof,

Having regard to the proposal from the Commission,

Whereas the Community is pursuing a programme of concerted action,

HAS ADOPTED THIS DECISION :

*Article 1*

Member States shall pursue economic policies which conform to the guidelines, set out in the Annex, on the adaptation of public budgets for 1978 and the preparation of public budgets for 1979.

*Article 2*

This Decision is addressed to the Member States.

Done at Brussels, 24 July 1978.

*For the Council*

*The President*

K. von DOHNANYI

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[1] OJ No L 63, 5. 3. 1974, p. 16.

*ANNEX*

**The contributions of individual Member States through budgetary policy to the concerted action of the Community will be as follows :**

(i) In *Denmark,* the margin for manoeuvre is extremely limited. As a contribution to the concerted action, however, personal income tax concessions amounting to Dkr 500 000 000, or 0·2 % of GDP, will be made in the 1979 budget (beyond the automatic adjustments that are legally provided for), and this action will be further linked to securing a stability-oriented outcome to forthcoming income negotiations. The public sector borrowing requirement may also be allowed to widen somewhat.

(ii) In the framework of concerted action the contribution of the *Federal Republic of Germany* will be to propose by the end of August to the legislative bodies additional and quantitatively substantial measures up to 1 % of GNP, designed to achieve a significant strengthening of demand and a higher rate of growth. The order of magnitude will take account of the absorptive capacity of the capital market and the need to avoid inflationary pressures. The choice of specific measures will have to depend on the time-lags with which the impact on effective demand could be achieved.

(iii) In *France* improved economic prospects have been established in recent months, in part through measures to assure a more healthy functioning of the price mechanism. An important aspect of these measures is to make available to enterprises the resources necessary to strengthen investment. In the framework of concerted action the 1978 budget deficit will be increased by 0·5 % of GDP. The framing of the 1979 budget will further contribute to the common strategy, with increases in transfer payments to certain categories of households and deferment of discretionary action to reduce the budget deficit beneath the level foreseen for 1978.

(iv) In *Ireland* an expansionary policy in 1978 is sustaining the highest rate of growth in the Community. Concerted action will help Ireland towards the objectives set out in the recent Government Green Paper 'Development for Full Employment', and, notably, achieve in 1979 a continued strong growth of output with a reduction in the central government borrowing requirement to 10·5 % of GDP (compared with 13 % in 1978). Ireland's own contribution will therefore be modest. However, some further growth-oriented measures will be taken in 1979, involving a shift of budgetary resources from certain categories of current subsidies into expenditures with greater employment-creating effects. The Community will for its part help strengthen investment through a priority in the allocation of its financial resources.

(v) In *Italy* the priority objective of concerted action is to attain a durable real growth, with in 1979 an increase in the rate of growth of 1·5 % higher than in 1978, through a reduction in the public sector deficit and the establishment of a sounder financial basis for future development. In 1978 there has already been a substantial increase in the public sector deficit (enlarged definition) from 12·1 % of GDP in 1977. The Italian Government is introducing measures to reduce this deficit significantly in the remainder of 1978, and in 1979. To this end, budgetary measures are now being prepared to raise certain taxes and public tariffs, reduce public expenditure, and so limit the public sector deficit in 1978 to Lit 31·5 billion (15·7 % of GDP). For 1979 further significant progress must, with the support of the social partners, be made in reducing this deficit as a percentage of GDP, principally through measures to stem the nominal growth of social transfer payments and public consumption, and to reduce subsidies to nationalized enterprises. In the context of stronger growth prospects in Europe resulting from concerted action, the objective is to reduce the enlarged public sector deficit by somewhat in excess of 1 % of GDP by comparison with the revised objective for 1978, with further reductions to be planned for the following two years in the context of the new triannual budget programming envisaged by the Government. The Community will for its part help strengthen investment through a priority in the allocation of its financial resources.

(vi) In the *Netherlands,* the authorities have recently revised their medium-term budget policy orientations on the basis of a forecast medium-term rate of growth of Dutch real national income of 3 %. Although the budgetary policy incentive is to reduce the financial deficit of the public sector to 4 to 5 % of national income in 1982, in the short run, and notably because of the greater margin of manoeuvre made available by the concerted action, the stance of fiscal policy will be expansionary. In mid-1978 the authorities implemented new investment incentives and reduced employers' social security contributions. The deficit will rise as a result of further measures to be taken in the framework of the 1979 budget by 1 % of national income by comparison with the 1978 level. These measures will include incentives for energy-saving investment and for improving the functioning of labour markets, and a stabilization of the burden of taxes and social security contributions.

(vii) In *Belgium,* the rise in the public sector deficit in 1978, due in part to the slower than forecast expansion of activity and of incomes, has led the authorities to propose a series of restrictive measures (increases in tariffs, tightening of certain current expenditure programmes) and to request special powers — lasting to the end of 1978 — to make additional economies in the 1978 budget as well as in the budget for 1979 now under preparation. These measures are intended to provide more room for expenditure-favouring investment and for tax reductions benefiting chiefly small and medium-sized enterprises. Estimates of the overall budget implications of the measures taken or envisaged are not yet available. However, preliminary indications suggest that the deficit for the public sector as a whole may be expected to increase from 5·3 % of GDP in 1977 to 5·7 % in 1978. In view of the increased margin of manoeuvre deriving from concerted action, the Belgian authorities envisage for 1979 a further increase in means to be devoted to the stimulation of private investment and/or alleviations in the fiscal or para-fiscal domains.

(viii) *Luxembourg* will be able to contribute with a fiscal stimulus in excess of 1 % of GDP, through income tax cuts, increased transfer payments to certain categories of households and aids to investment and industrial reconversion, these measures principally taking effect through the 1979 budget.

(ix) As a contribution towards the concerted action programme, the *United Kingdom* Government announced, in its April budget proposals for 1978/79, tax cuts of £ 2 000 million (or 1·25 % of GDP). These proposals use the room for manoeuvre created by the stabilization policy of the two preceding years and raise the forecast Public Sector Borrowing Requirement (PSBR) for 1978/79 up to the limit communicated to the International Monetary Fund (as confirmed in the stand-by credit renewal in May 1978). Because of the amendments made by Parliament to the budget proposals, which further raised the forecast PSBR, the UK authorities were obliged, in early June, to take restrictive fiscal and monetary measures in order to restore the borrowing requirement to the intended level, and to ensure that monetary growth remained within the limits announced. Whether a further modest stimulus could be considered later would depend upon the progress of concerted action and the United Kingdom's financial and economic situation at the time.

The Council will, at its forthcoming meetings, review the implementation of this programme of concerted action, notably in the context of its third examination of the economic situation in the Community later in 1978 and in establishing at that time economic policy guidelines for 1979.