COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.6.2004
SEC(2004) 815 final

Recommendation for a

**COUNCIL DECISION**

**on the existence of an excessive deficit in Greece**

(presented by the Commission)

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# EXPLANATORY MEMORANDUM

On 7 April 2004, the Commission published its spring 2004 forecasts.[1] According to these forecasts, which took into consideration revised data reported by Greece on 30 March 2004 but not validated by Eurostat, the general government deficit in 2003 reached 2.95% of GDP. Following contacts between Eurostat and the Greek authorities at the end of April, the latter submitted on 4 May a further revised notification with a deficit of 3.2% of GDP for 2003, thus exceeding the 3% of GDP Treaty reference value, and substantially higher than the 2002 deficit (1.5% of GDP). Moreover, at 103.0 percentage points the gross debt to GDP ratio remains well above the 60% Treaty reference value. Based on this prima facie evidence, the Commission initiated the Excessive Deficit Procedure for Greece on 19 May 2004, with the adoption of the report as foreseen in Article 104(3) of the Treaty.[2]

The application of the excessive deficit procedure (EDP) is governed by Article 104 of the Treaty and by Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure", which is part of the Stability and Growth Pact.[3]

The Commission report according to Article 104(3) of the Treaty concluded that the excess of the 3.2% of GDP deficit in 2003 over the 3% of GDP Treaty reference value did not result, in the sense of the Stability and Growth Pact, from an unusual event outside the control of the Greek authorities, nor was it the result of a severe economic downturn, which is defined in the Pact as an annual fall of real GDP of at least 2%. On the contrary, it occurred in a context of strongly positive growth, with real GDP growth at 4.2% in 2003, and a positive output gap of around 1.5% of GDP. The outturn of general government deficit for 2003 compares with a target deficit of 0.9% of GDP set in the December 2002 updated stability programme. The significant slippage is attributed to non recurrent factors (overruns in the expenditure related to the preparation of the Olympic Games and compensation for weather damages), to higher than planned primary spending (social transfers and public sector wages) and to a shortfall of budgetary revenues (VAT, income taxes and reclassification, as a financial transaction, of a payment from the Saving Postal Bank to government). Concerning developments in 2004, the report concluded that the general government deficit would probably increase and remain above 3% of GDP, in the absence of further measures.

The Commission report, based on the Commission Spring forecasts, noted that the debt-to-GDP ratio reached 103% of GDP in 2003, well above the 60% reference value of the Treaty. Moreover, it also noted that the Commission projects the debt ratio to decline only marginally to 102.8% of GDP in 2004, which is above the 98.3% of GDP reported by the Greek authorities on 4 May 2004. The report considered that both the high level of government debt and its slow pace of reduction are a cause of concern, especially in a period of high nominal growth and a positive and widening output gap.

Article 104(4) of the Treaty states that "the Committee provided for in Article 114 (i.e. the Economic and Financial Committee) shall formulate an opinion on the report of the

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1 The Commission Spring 2004 forecast is available at the following website: http://europa.eu.int/comm/economy_finance/publications/european_economy/2004/ee204en.pdf.

2 The full text of this report is available at the following website: http://europa.eu.int/comm/economy_finance/about/activities/sgp/procedures_en.htm.

3 OJ L 209, 2.8.1997.

Commission". The Committee issued its opinion on 2 June 2004, subscribing to the assessment made by the Commission in its report. In particular, the Committee concluded that the budgetary developments in Greece in 2003 indicated the existence of an excessive deficit under both criteria foreseen by Article 104(2) for the identification of such deficits. Consideration of other relevant factors, in particular the medium-term budgetary position and public investment ratio did not change the assessment based on the criteria themselves. The Committee also considered that in the present stage of policy setting and growth prospects, the general government deficit would continue to exceed the Treaty reference value in 2004, and that the general government gross debt would continue to remain well above the Treaty reference value of 60% of GDP in 2004. The Committee considered that both the high level of government debt and its slow pace of reduction are a cause of concern, especially in a period of high nominal growth and positive, widening gaps.

The Commission, having examined the relevant factors taken into account in its report and having regard to the opinion of the Committee, is of the opinion that an excessive deficit exists in Greece. This opinion, adopted by the Commission on 24 June 2004, has been addressed to the Council, according to Article 104(5) of the Treaty. The Commission recommends that the Council shall decide accordingly, in conformity with Article 104(6) and herewith addresses a recommendation for a decision to that effect. In addition, the Commission is submitting to the Council a recommendation for a Council recommendation to be addressed to Greece with a view to bringing the situation of an excessive deficit to an end, according to Article 104(7) of the Treaty.

**COUNCIL DECISION**

**on the existence of an excessive deficit in Greece**

THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission,

Having regard to the observations made by Greece,

Whereas:

(1) According to Article 104 of the Treaty Member States are to avoid excessive government deficits;

(2) 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;

(3) The excessive deficit procedure under Article 104 provides for a decision on the existence of an excessive deficit; The Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the excessive deficit procedure. Council Regulation (EC) No 3605/93[4] amended by Council Regulation (EC) No 475/2000[5] and by Commission Regulation (EC) No 351/2002[6] lays down detailed rules and definitions for the application of the provision of the said Protocol;

(4) Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. The Commission has addressed such an opinion on Greece to the Council on 24 June 2004. Having examined all relevant factors taken into account in its report in accordance with Article 104(3) and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4), the Commission concluded in its opinion on 24 June 2004 that there exists an excessive deficit in Greece.

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4 OJ L 332, 31.12.1993, p. 7.
5 OJ L 058, 3.03.2000, p. 1.
6 OJ L 055, 26.02.2002 p. 23.

(5) Article 104(6) of the Treaty lays down that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists.

(6) The overall assessment leads to the following conclusions: The general government deficit reached 3.2% of GDP in 2003 in Greece. The breach of the 3% of GDP Treaty reference value in 2003 did not result, in the sense of the Stability and Growth Pact, from an unusual event outside the control of the Greek authorities, nor is it the result of a severe economic downturn. On the contrary, it occurred in a context of strong economic growth at 4.2% in 2003, and a positive output gap of around 1.5% of GDP. The outturn of the general government deficit in 2003 compares with a target deficit of 0.9% of GDP set in the December 2002 updated stability programme. According to the Commission, the significant slippage is attributed to extraordinary factors (overruns in expenditure related to the preparation of the Olympic Games and compensation for weather damages), to higher than planned current spending (social transfers and public sector wages) and to a shortfall of revenues (VAT, income taxes and reclassification, as a financial transaction, of a payment from the Saving Postal Bank to government).

(7) According to its Spring 2004 forecasts, based on the assumption of no-policy change and a deficit figure for 2003 of 2.95% of GDP notified at the end of March, the Commission projects the general government deficit in Greece to reach 3.2% of GDP in 2004.

(8) The debt-to-GDP ratio reached 103% of GDP in 2003, well above the 60% reference value of the Treaty. Moreover, in its Spring 2004 forecasts, the Commission projects the debt ratio to decline only marginally to 102.8 % of GDP in 2004, which is above the 98.3% of GDP reported by the Greek authorities on 4 May 2004. The high level of government debt and its slow pace of reduction are a cause of concern, especially in a period of high nominal growth and positive and widening output gap.

(9) At present the quality of public finance data remains uncertain. The deficit figure for 2003 of 3.2% of GDP in the notification of 4 May compares with a deficit of 1.7% of GDP notified in early March, which was modified to 2.95% of GDP at the end of the same month, following the new government's initiative for a far-reaching auditing of public finances. Since open issues remained about the underlying data, the Greek authorities are committed to resolve most pending issues promptly in close collaboration with Eurostat. Moreover, although Eurostat validated the figures of the 4 May notification, there are firm indications that there will be significant further, and as regards deficits almost certainly upwards, revisions for 2003 and earlier years, when a customary notification is made in September 2004. Such revisions are moreover expected to have an upward impact on the deficit figures for 2004.

HAS ADOPTED THIS DECISION:

*Article 1*

From an overall assessment it follows that an excessive deficit exists in Greece.

*Article 2*

This decision is addressed to the Hellenic Republic.

Done at Brussels, (05 July 2004).

*For the Council*