

## II

(Acts whose publication is not obligatory)

## COUNCIL

## COUNCIL DECISION

of 5 July 2004

on the existence of an excessive deficit in Greece

(2004/917/EC)

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 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community<sup>(1)</sup> lays down detailed rules and definitions for the application of the provisions 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 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.

- (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.

<sup>(1)</sup> OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Commission Regulation (EC) No 351/2002 (OJ L 55, 26.2.2002, p. 23).

- (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, 5 July 2004.

*For the Council*

*The President*

G. ZALM