



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 22 November 2004
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LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject : Council Recommendation to Greece with a view to bringing an end to the
situation of an excessive government deficit

COUNCIL RECOMMENDATION TO GREECE
of 5 July 2004

with a view to bringing an end to the situation
of an excessive government deficit

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(7) thereof,

Having regard to the recommendation from the Commission,

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 Amsterdam Resolution of the European Council on the Stability and Growth Pact of 17 June 1997 solemnly invites all parties, namely the Member States, the Council and the Commission, to implement the Treaty and the Stability and Growth Pact in a strict and timely manner.
- (4) The Council decided on 5 July 2004, in accordance with Article 104(6), that an excessive deficit exists in Greece.
- (5) Having decided on the existence of an excessive deficit in Greece, the Council, in accordance with Article 104(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure¹, is required to make at the same time recommendations to the Member State concerned with a view to bringing that situation to an end within a given period. The Council recommendation has to establish a deadline of four months at the most for effective action to be taken by Greece to correct the excessive deficit as well as a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless there are special circumstances.

¹ OJ L 209, 2.8.1997, p. 6.

- (6) In the view of the Council, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy.
- (7) When defining the recommendations to correct the excessive deficit, the following factors should be taken into account: (i) The Commission, in its spring 2004 forecast, projects that the general government deficit will be 3,2% in 2004 and 2,8% in 2005. However, the Commission forecast for 2005 was based on the assumption of no policy changes and on a general government deficit for 2003 of 2,95% of GDP, which had been notified on 30 March 2004, while this figure was revised to 3,2% of GDP on 4 May 2004; (ii) Real GDP growth is projected to reach 4% in 2004, which is comparable to the rate of 4,2% in 2003, and to slow down to 3,3% in 2005, as works associated with the Olympic Games wind down in the first half of 2004. The current influence of temporary growth-boosting factors suggests a slowdown in economic activity in the near future; (iii) In a context of strong economic growth and a positive output gap, the cyclically-adjusted deficit is projected to increase in 2004, indicating the persisting pro-cyclical nature of the Greek fiscal policy; (iv) According to the Commission spring 2004 forecast, the general government gross debt is projected to decline only marginally from 103,0% of GDP in 2003 to 102,8% of GDP in 2004 and to 101,7% of GDP in 2005, thus still well above the Treaty reference value of 60% of GDP.

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 output gaps;

(v) Following the new government's initiative for a far-reaching auditing of public finances, the Greek authorities are committed to resolve pending issues on the quality of the public finance data promptly in close collaboration with Eurostat. There are indications that there could be further significant upwards revisions of the deficit of 2003 and of earlier years, when a customary notification is made in September 2004. Such revisions are expected to affect the deficit projections for 2004 and 2005, and hence the extent of the action required to correct the excessive deficit.

- (8) If the macro-economic outturn is in line with the Commission spring 2004 forecast, corrective measures of a mainly structural nature amounting to at least one percentage point of GDP, cumulated over 2004-2005, would lead to a deficit below the 3% of GDP Treaty reference value from 2005 onward, also taking into account risks associated with expected revisions of the deficit figures,

HEREBY RECOMMENDS:

- The Greek authorities should put an end to the present excessive deficit situation as rapidly as possible and by 2005 at the latest in accordance with Article 3(4) of Council Regulation (EC) No 1467/97. The Council establishes the deadline of 5 November 2004 for the Greek government to take effective action to this end;
- In order to ensure that the excessive deficit is effectively corrected by 2005 at the latest, the Greek authorities should take corrective measures of a mainly structural nature amounting to at least 1% of GDP, cumulated over 2004 and 2005, preferably equally distributed between the two years;

- The Greek authorities should also ensure that the government gross debt ratio diminish sufficiently and approach the reference value at a satisfactory pace; particular attention should be paid to factors other than net borrowing which contribute to the change in debt levels;
- The Greek authorities should ensure, as a matter of urgency, that the serious deficiencies revealed on budgetary statistics be corrected, through the improvement of the collection and processing of general government data.

In addition, the Council urges the Greek authorities to ensure that budgetary consolidation towards the medium term position of government finances close to balance or in surplus be sustained through a reduction in the cyclically-adjusted deficit by at least 0,5% of GDP per year after the excessive deficit has been corrected.

This Recommendation is addressed to the Hellenic Republic.

Done at Brussels, 5 July 2004.

For the Council
The President
