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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 11.11.2009  
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Recommendation for a

**COUNCIL DECISION**

**Establishing whether effective action has been taken by Greece in response to the  
Council recommendation of 27 April 2009**

## **EXPLANATORY MEMORANDUM**

### **1. THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION**

Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn in 2008/09. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be timely, targeted and temporary and differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which have impacted on the debt position or constitute a risk of higher deficits and debt in the future<sup>1</sup>, although some of the costs of the government support could be recouped in the future.

While in Greece the current deterioration in public finances must also be seen in the context of the unprecedented global financial crisis and economic downturn, fiscal imbalances have been high and persistent for many years, in spite of the buoyant economic activity up to 2008, suggesting structural roots. In particular, public deficits reflect insufficient control of public expenditure, while revenue projections have proven to be systematically overoptimistic. Moreover, structural and endemic deficiencies related to the recording of Greek government accounts in the recent past, have also been detrimental for timely and effective revenue and expenditure control. High deficits have led to one of the highest debt ratio in the EU, which is not only significantly above the 60% of GDP reference value, but remains on an upward path.

In view of the large imbalances of the Greek economy, and in line with the principles of the EERP, the government has not adopted any short-term stimulus package in response to the economic slowdown. As in several countries however, Greece has taken measures to stabilise the financial sector, some of which impact on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped.

The Stability and Growth Pact requires the Council to decide on whether effective action has been taken by a Member State in response to Council recommendations on ending an excessive deficit situation. The amendments to the Stability and Growth Pact in 2005 aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation and thereby ensuring the long-term sustainability of public finances.

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<sup>1</sup> See the Eurostat decision of 15 July 2009 on the statistical recording of public interventions to support financial institutions and financial markets during the financial crisis, Eurostat News Release No 103/2009.

## 2. PREVIOUS STEPS IN THE EXCESSIVE DEFICIT PROCEDURE

Article 104 of the Treaty lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 “on speeding up and clarifying the implementation of the excessive deficit procedure”<sup>2</sup> which is part of the Stability and Growth Pact.

According to Article 104(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

Article 104(3) stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to “take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State”.

On the basis of the data notified by the Greek authorities in October 2008<sup>3</sup> and subsequently validated by Eurostat<sup>4</sup> and taking into account the Commission services’ January 2009 interim forecast, the Commission adopted a report under Article 104(3) for Greece on 18 February 2009<sup>5</sup>.

Subsequently, and in accordance with Article 104(4), the Economic and Financial Committee formulated an opinion on the Commission report on 27 February 2009.

On 24 March 2009 the Commission, having taken into account its report under Article 104(3) and the opinion of the Economic and Financial Committee under Article 104(4), addressed to the Council, in accordance with Article 104(5), its opinion that an excessive deficit existed in Greece.

On 27 April 2009, upon a recommendation by the Commission, the Council decided, in accordance with Article 104(6) of the Treaty, that an excessive deficit existed in Greece in 2007 and 2008. At the same time, and in accordance with Article 104(7) the Council, addressed recommendations to Greece to put an end to the present excessive deficit situation

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<sup>2</sup> OJ L 209, 2.8.1997, p. 6. Account is also taken of the Opinion of the Economic and Financial Committee on the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005, available at:

[http://ec.europa.eu/economy\\_finance/other\\_pages/other\\_pages12638\\_en.htm](http://ec.europa.eu/economy_finance/other_pages/other_pages12638_en.htm)

<sup>3</sup> According to Council Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Greece can be found at:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/procedure/edp\\_notification\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/procedure/edp_notification_tables)

<sup>4</sup> Eurostat news release No 147/2008 of 22 October 2008.

<sup>5</sup> All EDP-related documents for Greece can be found at the following website:

[http://ec.europa.eu/economy\\_finance/netstartsearch/pdfsearch/pdf.cfm?mode=\\_m2](http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode=_m2).

by 2010, by bringing the general government deficit below 3% of GDP in a credible and sustainable manner. The Council further recommended *"that to this end, the Greek authorities should (i) strengthen the fiscal adjustment in 2009 through permanent measures, mainly on the expenditure side, including by implementing the measures already announced; (ii) implement additional permanent measures in 2010, in order to bring the headline deficit clearly below the 3 % of GDP reference value by the end of the year; (iii) continue efforts to control factors other than net borrowing, which contribute to the change in debt levels, with a view to ensuring that the government gross debt ratio diminishes sufficiently and approaches the reference value at a satisfactory pace; and (iv) continue efforts to improve the collection and processing of statistical data and in particular general government data"*. The Council established a deadline of 27 October 2009 for Greece to take effective action to strengthen the fiscal consolidation path already in 2009 and to specify the measures that seem sufficient to ensure adequate progress towards the correction of the excessive deficit by 2010.

The Council further noted that a budgetary correction in Greece *"is also crucial for recovering competitiveness losses and addressing the existing external imbalances. To this end, the Greek authorities should implement permanent measures, including the recently announced measures to control current primary expenditure, including public wages; and urgently implement structural reforms. In particular, the Greek authorities should ensure that fiscal consolidation measures are also geared towards enhancing the quality of public finances within the framework of a comprehensive reform programme, while strengthening the binding nature of its budgetary framework, improving monitoring of the budget execution and swiftly implementing policies to further reforming the tax administration"*.

According to the provisions of Article 104(8) of the Treaty and of Article 4(1) of Regulation (EC) No 1467/97, if the Council considers that no effective action has been taken in response to the recommendations addressed under Article 104(7) within the deadline specified in the recommendation (i.e. 27 October 2009), it shall decide accordingly immediately after the expiry of the deadline. To this end, the Commission has made an assessment of whether Greece has taken effective action in response to the Council's recommendations.

### **3. THE COLLECTION AND PROCESSING OF STATISTICAL DATA**

In accordance with Article 3(4) of Council Regulation (EC) No 1467/97, the Council recommended to Greece to continue efforts to improve the collection and processing of statistical data and in particular general government data. However, the shortcomings in public finance statistics remain a recurrent issue.

On 22 October 2009, Eurostat expressed a general reservation over the figures notified by the Greek authorities, due to significant uncertainties over the figures reported and thus, did not validate the data. More specifically, substantial revisions of the government deficit and debt data for the previous years were set out in the October 2009 EDP notification. The general government deficit for 2008 was revised to almost 7¾% of GDP, up by 4 percentage points compared to the January 2009 update of the stability programme and 2¾ percentage points compared to the April 2009 EDP notification. According to the Greek authorities, the upward revision in the 2008 deficit figure was mainly due to higher public expenditure, which had not been recorded in the previous notification. The revised public expenditure includes a one-off capital expenditure of around 1¼% of GDP, related to past years' general government liabilities to the private-sector (mainly, public hospitals arrears to their suppliers).

In the view of the Commission there are still issues questioning the adequacy of the mechanisms to ensure the prompt and correct supply of the information required by the existing legal framework and thus, there has been no effective action in response to the Council recommendation.

#### 4. ACTION TAKEN BY GREECE IN RESPONSE TO THE COUNCIL RECOMMENDATION OF 27 APRIL 2009

According to Regulation (EC) No 1467/97 and the revised Code of Conduct<sup>6</sup> a Member State should be considered to have taken effective action if it has acted in compliance with the 104(7) recommendation. The Code of Conduct states that the assessment of effective action should in particular take into account whether the Member State concerned has achieved the annual improvement of its cyclically-adjusted balance, net of one-off and other temporary measures, initially recommended by the Council. In case the observed adjustment proves to be lower than recommended, a careful analysis of the reasons for the shortfall should be made. In case of a multi-annual adjustment, the Code of Conduct specifies that the assessment should mainly focus on the measures taken in order to ensure an adequate fiscal adjustment in the year following the identification of the excessive deficit.

##### 4.1. Economic and budgetary outlook

The macroeconomic and budgetary situation and outlook deteriorated in Greece, since the adoption by the Council of the recommendation in accordance with Article 104(7) in April 2009. Both consumer and business confidence were hit by the crisis, weakening economic activity since late-2008 and weighing on medium-term prospects of the economy. Although later than in other countries, GDP growth decelerated also in 2008 recording an annual growth rate of 2%, from 4½% in 2007.

**Table 1: Revised estimations of the budgetary outcome and economic growth**

	Real GDP growth				Net lending/Net borrowing general government			
	2008	2009	2010	2011	2008	2009	2010	2011
<b>Budget 2009</b>	3.2	2.7	n.a.	n.a.	-2.5	-2.0	n.a.	n.a.
<b>COM 2009 Jan</b>	2.9	0.2	0.7	n.a.	-3.4	-3.7	-4.2	n.a.
<b>SP 2009 Jan</b>	3.0	1.1	1.6	2.3	-3.7	-3.7	-3.2	-2.6
<b>EDP notification (2009 April)</b>	n.a.	n.a.	n.a.	n.a.	-5.0	-3.7	n.a.	n.a.
<b>COM 2009 Spring</b>	2.9	-0.9	0.1	n.a.	-5.0	-5.1	-5.7	n.a.
<b>EDP notification (2009 October)</b>	n.a.	n.a.	n.a.	n.a.	-7.7	-12.5	n.a.	n.a.
<b>COM 2009 Autumn</b>	2.0	-1.1	-0.3	0.7	-7.7	-12.7	-12.2	12.8

Source: AMECO, Commission services, January 2009 update of the stability program

Compared to the Commission services' January 2009 interim forecast, underpinning the recommendations by the Council in April 2009 in accordance with Article 104(7), growth projections have been revised downward. Instead of almost flat real GDP growth in 2009,

<sup>6</sup> “Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes”, endorsed by the ECOFIN Council of 11 October 2005.

followed by a mild recovery in 2010, the Commission services' autumn 2009 forecast projects real GDP to contract by around 1% in 2009 and by ¼% in 2010. At the same time, the output gap is foreseen to be at zero and -2.2% in 2009 and 2010 respectively, compared with 0.7% and -0.9% in the Commission services' January 2009 interim forecast.

However, although the deterioration in macroeconomic conditions has been more pronounced than anticipated by the authorities, public finances have worsened much beyond what could have been expected as a result of the stronger-than-projected downturn and to a large extent as a result of budgetary policies implemented by the Greek government. With both rapidly falling revenue-to-GDP and rising expenditure-to-GDP ratios contributing to the fiscal deterioration in 2009, the October 2009 EDP notification estimate the government deficit in 2009 at 12½% of GDP. This compares with 3.7% of GDP in the Commission services' January 2009 interim forecast. On the expenditure side, a number of one-off expenditures mainly related to arrears to the hospitals' suppliers amounting at around 1½ percentage points of GDP have been included. Taking into account relevant information provided by the Greek authorities, and the budget implementation cash-data over the first nine months, the Commission services expect that the general government deficit in 2009 would reach 12¾% of GDP. This projection also includes the impact of all measures announced and implemented in 2009<sup>7</sup>. In structural terms, the deficit in 2009 is estimated to increase by ¾ pp. of GDP compared with 2008.

The rapid deterioration of fiscal imbalances can only marginally be attributed to the worse-than-expected macroeconomic conditions. As shown in Table 2, apart from a base effect due to the statistical upward revision of the deficit in 2008, the higher-than-budgeted general government deficit in 2009 can only partly be attributed to the working of automatic stabilizers as the economy entered a recessionary phase. The deterioration mainly reflects both revenue shortfalls of around ¾ percentage points of GDP and expenditure overruns of almost 2½ percentage points of GDP.

**Table 2: Major factors determining the deficit outturn in 2009 (\*)**

	Effect on the deficit (°)	Deficit in 2009
<b>Initial target in the 2009 budget law</b>		<b>2.0</b>
<b>January 2009 update of the Stability programme</b>		<b>3.7</b>
Base year effect	1.4	
Automatic stabilisers	1.5	
One-off expenditure	1.5	
Impact of revenue enhancing measures	-1.0	
Impact of expenditure restraining measures	-0.3	
Revenue shortfalls	3.5	
Expenditure overruns	2.2	
Difference in swaps	0.2	
<b>Autumn 2009 Commission forecast</b>		<b>12.7</b>

(\*) The table summarises, in % of GDP, the main revisions, corrections and discrepancies in the 2009 budget since its adoption by the (former) Greek government at the end of 2008, and the Commission forecasts.

(°) a '+' indicates deficit-increasing, while a '-' means deficit-decreasing.

<sup>7</sup> All deficit reducing measures included in the 2009 budget law, the January 2009 update of the stability program, the March 2009 fiscal package and the June 2009 fiscal package.

On the revenue side and in spite of the implementation of a number of revenue enhancing measures and the announced intensification of the fight against tax evasion, the significant tax shortfalls also reflect shortcomings in the revenue collection mechanism and low incentives for tax compliance. Unlike other countries, Greece entered the economic downturn only in late 2008. Nevertheless, direct taxation for instance, imposed on incomes generated in 2008, started to be affected already in the first quarter of 2009. On the expenditure side, the 2009 budget execution points to sizeable expenditure overruns in 2009 of which more than half is attributed to higher-than-budgeted outlays for compensation of employees and increased capital spending, suggesting that the Greek authorities' efforts to restrain primary current expenditure have not been successful so far.

#### **4.2. Action taken by Greece in strengthening fiscal adjustment**

In accordance with Article 3(4) of Council Regulation (EC) No 1467/97, the Council recommended to Greece to strengthen the fiscal adjustment in 2009 through permanent measures, mainly on the expenditure side, including by implementing the measures already announced in the 2009 budget, the January 2009 update of the stability programme and the March 2009 deficit-reducing additional package.

The January 2009 update of the stability programme included a set of deficit-reducing measures with an estimated impact by the authorities of around 1¼% of GDP, which were included in the Commission services' January 2009 interim forecast. Almost half of these measures, amounting to more than ½% of GDP was temporary in nature (one-offs). On 18 March 2009, an additional set of deficit-reducing measures was announced by the Greek authorities. These measures were meant to compensate for the higher-than-expected public deficit in 2008 (estimated at 5% of GDP in the April 2009 EDP notification), and support the fiscal adjustment efforts in 2009. According to the official estimates, the budgetary impact of these measures amounts to some ½% of GDP, mostly expenditure restraining but almost half of it was temporary in nature. The Greek authorities also announced a new system of detection and collection of tax arrears which, according to the authorities, would yield additional revenue in 2009.

Most of the measures included in the 2009 budget law, the January 2009 update of the stability programme and the package announced in March have been fully or partially implemented<sup>8</sup>. More specifically, permanent expenditure-reducing and revenue enhancing measures with an estimated impact of some ¼% and ½% of GDP, respectively, have been implemented. An additional budgetary impact of some ¼% of a percentage point should be attributed to the implementation of temporary revenue enhancing measures.

However, in its recommendations of 27 April 2009 according to Article 104(7), the Council did not consider the measures already announced by that time, to be sufficient to achieve the 2009 deficit target and recommended to the Greek authorities to “*strengthen the fiscal adjustment in 2009 through permanent measures, mainly on the expenditure side*”. In response to these recommendations the Greek government announced, on 25 June 2009, an additional set of fiscal measures to be implemented in 2009, in order to ‘safeguard’ the budgetary implementation towards the target of 3.7% of GDP. However, these measures with

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<sup>8</sup> The measures included in the 2009 budget and the March 2009 package related to the public sector's operational expenditure and wage bill restraining, as well as the collection of tax arrears, were only partially implemented.



an estimated budgetary impact of some 1¼% of GDP have not been implemented by the Greek authorities so far. Moreover, they consisted mostly of revenue-enhancing measures, of which, a major part (around 1 percentage point of GDP) was temporary in nature (one-offs).

The budgetary policy by the Greek authorities did not comply with the Council's recommendations (*permanent measures, mainly on the expenditure side*) and seems insufficient to address Greece's fiscal imbalances in a sustainable manner. As the fiscal measures announced by the Greek authorities in June consisted mostly of temporary measures and were thus not in line with the recommendations by the Council, there were concerns that these measures might not prove sufficient to achieve the budgetary target in 2009. The deteriorating economic outlook and the budgetary execution in the first half of 2009 pointed to an unambiguous risk that, without additional measures, the deficit target would be largely missed, even by taking into account the additional measures announced by the authorities.

The 2010 draft budget was adopted by the Greek government on 5 November 2009, setting a deficit target of 9.4% of GDP. The final draft of the 2010 budget including a detailed presentation of the fiscal measures to be implemented by the Greek authorities in 2010 will be submitted to Parliament by 20 November and adopted by 17 December. Under a no-policy-change assumption, the Commission services' autumn 2009 forecast projects the government deficit to continue to exceed 12% of GDP in both 2010 and 2011. As a consequence, fiscal consolidation will remain a major challenge. Tax revenue is likely to follow a period of sluggish growth, reflecting shortcomings in revenue collection and low incentives for tax compliance, while social contributions may also be lower, on the back of shrinking employment. Public expenditure should remain high, partly reflecting the functioning of automatic stabilisers, through higher social transfers, and the higher burden of interest payments associated with increasing debt-servicing costs.

In conclusion, although macroeconomic conditions have worsened beyond what was anticipated, the rapid deterioration of fiscal imbalances can only marginally be attributed to the worse-than-expected macroeconomic conditions. Therefore, the Council recommendations to the Greek government, namely to strengthen fiscal adjustment in 2009 through permanent expenditure-restraining measures and to continue with fiscal consolidation efforts in 2010 with a view to bringing the situation of excessive deficit to an end by 2010, have not been followed. Having assessed the impact and the composition of the fiscal consolidation measures taken by the Greek authorities so far, the Commission is of the opinion that there has been no effective action in response to the Council recommendations according to Article 104(7) within the period laid down in the recommendation, and it recommends the Council to decide accordingly.

#### **4.3. *Action taken by Greece in ensuring that the government gross debt ratio diminishes sufficiently***

In accordance with Article 3(4) of Council Regulation (EC) No 1467/97, the Council recommended to Greece to continue efforts to control factors other than net borrowing, which contribute to the change in debt levels, with a view to ensuring that the government gross debt ratio diminishes sufficiently and approaches the reference value at a satisfactory pace, in line with the correction of the excessive deficit.

The increase in the 2008 debt-to-GDP ratio as announced in the October EDP notification was related to swaps transactions, which had previously remained unrecorded and financial transactions related to social security funds, which had been overestimated. For 2009, the

Greek authorities estimate gross public debt to increase further to around 113% of GDP, which is broadly in line with the Commission services' autumn 2009 forecast. The significant increase in the debt-to-GDP ratio in 2009 reflects the combined effect of a snow-ball effect and sizable stock-flow adjustment.

**Table 3: Revised estimations of gross general government debt**

	Gross Public Debt (% of GDP)			
	2008	2009	2010	2011
<b>Budget 2009</b>	93.1	91.4	n.a.	n.a.
<b>COM 2009 Jan</b>	94.0	96.2	98.4	n.a.
<b>SP 2009 Jan</b>	94.6	96.3	96.1	94.7
<b>EDP notification(2009 April)</b>	97.6	99.6	n.a.	n.a.
<b>COM 2009 Spring</b>	97.6	103.4	108.0	n.a.
<b>EDP notification(2009 October)</b>	99.1	113.2	n.a.	n.a.
<b>COM 2009 Autumn</b>	99.1	112.6	125.7	135.4

Source: AMECO, Commission services, January 2009 update of the stability program

Looking ahead, according to the Commission services' autumn 2009 forecast the downturn in nominal GDP, coupled with high budget deficits, is expected to push debt higher to around 125% of GDP in 2010. Over the medium term, major uncertainties concerning debt dynamics remain. In particular, the cost of financing government debt may rise further. This would not only render the financing of any additional issuance more expensive, but would also increase the cost of refinancing the existing stock of public debt. Over the past year, upward revisions of debt estimates have been recurrent not only because of deficit slippages, but also due to the underestimation of stock-flow adjustments. This provides evidence that the government has taken no effective action in controlling factors other than net borrowing, which contribute to the change in debt levels. As the debt-to-GDP ratio is projected to increase and remain well above the reference value of 60%, it cannot be considered as sufficiently diminishing and approaching the reference value at a satisfactory pace.

**Table 4: Debt dynamics**

	2005	2006	2007	2008	2009	2010	2011
<b>Gross debt ratio</b>	<b>-100</b>	<b>-97.1</b>	<b>-95.6</b>	<b>-99.2</b>	<b>-112.6</b>	<b>-124.9</b>	<b>-135.4</b>
Change in the ratio	-1.5	2.9	1.6	-3.6	-13.4	-12.3	-10.5
<i>Contributions (*):</i>							
<b>Primary balance</b>	<b>-0.7</b>	<b>1.2</b>	<b>0.5</b>	<b>-3.2</b>	<b>-7.7</b>	<b>-6.4</b>	<b>-6.6</b>
<b>“Snow-ball” effect</b>	<b>1</b>	<b>-5.5</b>	<b>-3.6</b>	<b>5.8</b>	<b>19.8</b>	<b>17.3</b>	<b>15.8</b>
Of which:							
Interest expenditure	4.4	4.1	4.1	4.6	5	6.0	7.0
Growth effect	-2.1	-4.2	-4	-1.8	1	0.3	-0.8
Inflation effect	-1.3	-5.4	-3.7	3.1	13.8	11.0	9.7
<b>Stock-flow adjustment</b>	<b>1.1</b>	<b>1.4</b>	<b>1.6</b>	<b>1</b>	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>

Source: Commission services' autumn 2009 forecast, AMECO

(\*) The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

#### 4.4. Conclusions

On the basis of this assessment, the Commission recommends that the Council shall decide in conformity with Article 104(8) that Greece has not taken effective action in response to the Council recommendation of 27 April 2009.

		2007	2008	2009	2010	2011
Real GDP (% change)	<b>SP Jan 2009</b>	<b>4.0</b>	<b>3.0</b>	<b>1.1</b>	<b>1.6</b>	<b>2.3</b>
	COM Jan 2009	4.0	2.9	0.2	0.7	n.a.
	COM Apr 2009	4.0	2.9	-0.9	0.1	n.a.
	COM Oct 2009	4.5	2.0	-1.1	-0.3	0.7
Output gap <sup>1</sup> (% of potential GDP)	<b>SP Jan 2009</b>	<b>2.2</b>	<b>1.9</b>	<b>0.3</b>	<b>-0.8</b>	<b>-1.0</b>
	COM Jan 2009	3.0	2.8	0.5	-1.2	n.a.
	COM Apr 2009	2.5	2.5	-0.5	-2.4	n.a.
	COM Oct 2009	3.4	2.8	-0.2	-2.1	-2.9
General government balance (% of GDP)	<b>SP Jan 2009</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-3.7</b>	<b>-3.2</b>	<b>-2.6</b>
	COM Jan 2009	-3.5	-3.4	-3.7	-4.2	n.a.
	COM Apr 2009	-3.6	-5.0	-5.1	-5.7	n.a.
	COM Oct 2009	-3.7	-7.7	-12.7	-12.2	-12.8
Primary balance (% of GDP)	<b>SP Jan 2009</b>	<b>0.6</b>	<b>0.3</b>	<b>0.8</b>	<b>1.2</b>	<b>1.7</b>
	COM Jan 2009	0.6	0.6	0.6	0.0	n.a.
	COM Apr 2009	0.5	-0.7	-0.5	-0.9	n.a.
	COM Oct 2009	0.5	-3.2	-7.7	-6.6	-6.7
Structural balance <sup>2</sup> (% of GDP)	<b>SP Jan 2009</b>	<b>-3.9</b>	<b>-4.9</b>	<b>-4.3</b>	<b>-2.8</b>	<b>-2.2</b>
	COM Jan 2009	-4.6	-5.0	-4.7	-3.7	n.a.
	COM Apr 2009	-4.5	-6.5	-5.7	-4.7	n.a.
	COM Oct 2009	-4.9	-8.1	-11.3	-11.3	-11.6
Government gross debt (% of GDP)	<b>SP Jan 2009</b>	<b>94.8</b>	<b>94.6</b>	<b>96.3</b>	<b>96.1</b>	<b>94.7</b>
	COM Jan 2009	94.8	94.0	96.2	98.4	n.a.
	COM Apr 2009	94.8	97.6	103.4	108.0	n.a.
	COM Oct 2009	95.6	99.2	112.6	124.9	135.4
<p><u>Notes:</u>  <sup>1</sup> Output gaps and cyclically-adjusted balances according to the programmes as recalculated by Commission services on the basis of the information in the programmes.  <sup>2</sup> Cyclically-adjusted balance excluding one-off and other temporary measures.</p>						
<p><u>Source:</u>  Stability programme (SP); Commission services' January 2009 interim forecasts (COM); Commission services' Spring 2009 forecasts (COM); Commission services' Autumn 2009 forecasts (COM); Commission services' calculations</p>						

Recommendation for a

## COUNCIL DECISION

### **Establishing whether effective action has been taken by Greece in response to the Council recommendation of 27 April 2009**

THE COUNCIL OF THE EUROPEAN UNION

Having regard to the Treaty establishing the European Community, and in particular Article 104(8) 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. The Stability and Growth Pact includes Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>9</sup>, which was adopted in order to further the prompt correction of excessive general government deficits.
- (3) The 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run. It aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.
- (4) The Council, acting upon a recommendation by the Commission, decided on 27 April 2009, in accordance with Article 104(6), that an excessive deficit existed in Greece<sup>10</sup>.
- (5) On 27 April 2009 the Council, also on the basis of a Commission recommendation, adopted a recommendation<sup>11</sup> in accordance with Article 104(7) of the Treaty to the Greek authorities calling on them to put an end to the excessive deficit situation by 2010 at the latest, by bringing the general government deficit below 3 % of GDP in a

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<sup>9</sup> OJ L 209, 2.8.1997, p. 6.

<sup>10</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:238:0005:0006:EN:PDF> (OJ L 238, 5.9.2008, p. 5).

<sup>11</sup> [http://ec.europa.eu/economy\\_finance/publications/publication14950\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication14950_en.pdf)

credible and sustainable manner. To that end, the Council established the deadline of 27 October 2009 for the Greek government to take effective action.

- (6) The progress with improving the collection and processing of statistical data and in particular general government data, as requested by the Council has been insufficient. The latest revision of the October 2009 notification has not been validated by Eurostat due to the significant uncertainties over the figures notified by the Greek authorities. The procedures in place to ensure a prompt and correct supply of general government data required by the existing legal framework are manifestly insufficient.
- (7) The assessment of the action taken by Greece to correct the excessive deficit by 2010 in response to the Council recommendation under Article 104(7) of the Treaty leads to the following conclusions:
- subsequent to the Article 104(7) Council recommendation in April 2009, the Greek authorities implemented the deficit-reducing measures included in the 2009 budget law, the January 2009 update of the stability programme and the March 2009 additional package of fiscal measures. However, although the deterioration in macroeconomic conditions has been more pronounced than anticipated by the authorities, public finances have worsened much beyond what could have been expected as a result of the stronger-than-projected downturn and to a large extent as a result of budgetary policies implemented by the Greek government. Notably, on the expenditure side, the 2009 budget execution points to sizeable expenditure overruns in 2009 of which more than half is attributed to higher-than-budgeted outlays for compensation of employees and increased capital spending;
  - on 25 June 2009 the Greek authorities announced additional deficit-reducing discretionary measures, with an estimated budgetary impact of some 1¼% percentage points of GDP. However, the majority of the measures have not been implemented by the Greek authorities so far and almost one percentage point of GDP were temporary in nature (one-offs), targeting additional revenue, hence not in line with the Council recommendations to strengthen fiscal adjustment in 2009 through permanent measures, mainly on the expenditure side;
  - moreover, the fiscal consolidation measures implemented in 2009 are not sufficient to achieve the general government deficit target of 3.7% of GDP in 2009. They also do not address the challenges stemming from the external imbalances and the deteriorating competitiveness position of the Greek economy as recommended by the Council;
  - the large projected increase in the debt-to-GDP ratio exceeds the impact of the deterioration in the general government's net borrowing position, indicating insufficient efforts to control factors other than net borrowing, which contribute to the change in debt levels.
- (8) This leads to the conclusion that significant revenue shortfalls and expenditure overruns have led to a strong deterioration in Greece's budgetary position in 2009, which can only partly be attributed to the deterioration of the macroeconomic conditions and, hence, are mainly due to an insufficient response by the Greek authorities to the Council recommendation according to Article 104(7) of the Treaty of 27 April 2009.

HAS ADOPTED THIS DECISION:

*Article 1*

Greece has not taken effective action in response to the Council Recommendation of 27 April 2009 within the period laid down in that Recommendation.

*Article 2*

This decision is addressed to the Hellenic Republic.

Done at Brussels,

*For the Council  
The President*