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Recommendation for a

COUNCIL DECISION

amending Decision 2011/734/EU addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit

EXPLANATORY MEMORANDUM

Measures concerning the coordination and surveillance of the budgetary discipline of Greece and the setting out economic policy guidelines for Greece are defined in Council Decision 2011/734/EU on the basis of Articles 126(9) and 136 TFEU.

Compliance with the decision is relevant not only in the context of the excessive deficit procedure, but also in the context of the financing to Greece by the euro-area Member States, through the EFSF.

The government deficit (ESA95 basis) ceiling for 2011 established by the Council Decision was missed. For 2012, the government adopted a budget aimed at sticking to the target set in the Council decision and has adopted measures which would ensure a further reduction in the deficit in subsequent years.

Economic activity in 2011-2014 is currently estimated and projected to be, much weaker than previously exepcted when Council Decisions 2010/320/EU and 2011/734/EU were adopted. In February 2012, the Greek government announced measures aimed at reducing the primary deficit in 2012, including the adoption of a supplementary budget. In March 2012, Greece executed a debt exchange operation which substantially reduced interest expenditure in 2012 and in next years, and contributed to the sustainability of government debt.

Given this, there is a need to revise the annual targets while keeping the deadline for the correction of the excessive deficit. Targets expressed in terms of the primary surplus as a percent of GDP of -1.0 in 2012, +1.8 in 2013 and +4.5 in 2014, appear appropriate given the deadline for the correction of the excessive deficit by 2014, and the need to improve the debt sustainabilty.

There have been intensive discussions among Greece and the Commission services, the ECB and the IMF staff, on the update of the policy conditionality in the Memorandum of Understanding of the economic adjustment programme of Greece. These discussions considered not only the fiscal consolidation measures, but also the need to enhance the growth-friendly nature of these measures and to minimise any social impact.

The Commission has adopted a Recommendation for a Council Decision amending decision 2011/734/EU and has transmitted it to the Council.

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amending Decision 2011/734/EU addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 126(9) and Article 136 thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) Article 136(1)(a) TFEU foresees the possibility of adopting measures specific to the Member States whose currency is the euro with a view to strengthening the coordination and surveillance of their budgetary discipline.

(2) Article 126 TFEU establishes that Member States are to avoid excessive government deficits and sets out the excessive deficit procedure to that effect. The Stability and Growth Pact, which in its corrective arm implements the excessive deficit procedure, provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

(3) On 27 April 2009, the Council decided, in accordance with Article 104(6) of the Treaty establishing the European Community (TEC), that an excessive deficit existed in Greece.

(4) On 10 May 2010, the Council adopted Decision 2010/320/EU[1] addressed to Greece under Article 126(9) and Article 136 TFEU with a view to reinforcing and deepening the fiscal surveillance and giving notice to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit at the latest by the deadline of 2014. The Council established 2014 as the deadline for correcting the situation of excessive deficit, and annual targets for the government deicit.

(5) Council Decision 2010/320/EU was substantially amended several times. Since further amendments were to be made, it was recast, on 12 July 2011, by Council Decision 2011/734/EU[2] in the interests of clarity.

(6) Economic activity in 2011-2014 is currently estimated and projected to be, much weaker than previously exepcted when Council Decisions 2010/320/EU and 2011/734/EU were adopted. Economic activity is estimated to have contracted in 2011 by 6.8 percent. Currently, the Commission forecasts the real Greek GDP to contract by 4.7 percent in 2012, to stagnate in 2013, before resuming growing by 2.5 percent in 2014. In nominal terms, GDP contracted by 5.2 percent in 2011, and is expected to contract by 5.4 and 0.4 percent in 2012 and 2013, respectively, before expanding by 2.5 percent in 2014.

[1] OJ L 145, 11.6.2010, p. 6.
[2] OJ L 296, 15.11.2011, p. 38.

(7) In February 2012, the Greek government announced measures aimed at reducing the primary deficit in 2012, including the adoption of a supplementary budget. Extensive discussions on these measures have taken place between the Hellenic authorities and the Commission services. These discussions considered not only the fiscal consolidation measures, but also the need to enhance the growth-friendly nature of these measures and to minimise any social impact.

(8) In March 2012, Greece launched and executed a debt exchange operation which substantially reduces the debt level and interest expenditure in 2012 and in the next years, and contributes to the sustainability of government debt.

(9) In the light of the above considerations, it appears appropriate to amend Decision 2011/734/EU in a number of respects, including the fiscal adjustment path, while keeping unchanged the deadline for the correction of the excessive deficit,

HAS ADOPTED THIS DECISION:

Article 1

Decision 2011/734/EU is hereby amended as follows:

1. In Article 1, paragraphs (2) and (3) are replaced by:

'(2) The adjustment path towards the correction of the excessive deficit shall aim to achieve a general government primary deficit (deficit excluding interest expenditure) not exceeding EUR 2 037 million (1.0% of GDP) in 2012, and primary surpluses of at least EUR 3 652 million (1.8% of GDP) in 2013 and EUR 9 352 million (4.5% of GDP) in 2014. Following the debt exchange, these targets for the primary deficit/surplus are consistent with an overall deficit of EUR 14 811 million (7.3% of GDP) in 2012, EUR 9 462 million (4.7% of GDP) in 2013 and EUR 4 499 million (2.2% of GDP) in 2014. To this aim, an improvement in the structural balance of at least 10% of GDP will have been achieved over the period 2009-2014. Proceeds from the privatisation of assets (financial and non-financial assets), as well as the amounts paid to Greece by the euro-area Member States from future income accruing to their national central banks on their Greek government bond holdings shall not reduce the required fiscal consolidation effort and shall not be counted in the assessment of these targets.

(3) The adjustment path referred to in paragraph 2 is consistent with an annual change in the general government consolidated debt of EUR -26 954 million in 2012, of EUR 6 775 million in 2013 and of EUR 1 492 million in 2014.'

2. In Article 2, the following paragraph is inserted after paragraph 7:

'7a. Greece shall adopt the following measures without delay

(a) a reduction in pharmaceutical expenditure by at least EUR 1 076 million, in 2012;

(b) a reduction in overtime pay for doctors in hospitals by at least EUR 50 million in 2012;

(c) a reduction in the procurement of military material by EUR 300 million (cash and deliveries) in 2012;

(d) a reduction by 10 percent in the remuneration of elected and related staff at local level in 2012 and reduction in the number of deputy mayors and associated staff in 2013 with the aim of saving at least EUR 9 million in 2012 and 28 million in 2013 onwards;

(e) a reduction in the central government's operational expenditure, and election-related spending, by at least EUR 370 million (compared to the 2012 budget), of which at least EUR 100 million in military-related operational expenditure, and at least EUR 70 million in electoral spending;

(f) a reduction in operational expenditure by local government with the aim of saving at least EUR 50 million in 2012;

(g) cuts in subsidies to residents in remote areas, and cuts in grants to several entities supervised by the ministries, with the aim of reducing expenditure in 2012 by at least EUR 190 million;

(h) a reduction in the public investment budget (PIB) by EUR 400 million in 2012. This reduction in the PIB budget will not have any impact on projects that are co-financed by structural funds (including TEN-T projects);

(i) changes in supplementary pension funds and pension funds with high average pensions or which receive high subsidies from the budget, and cuts in other high pensions, with the aim of saving at least EUR 450 million in 2012 (net after taking into account the impact on taxes and social contributions);

(j) cuts in family allowances for high-income households, with the aim of saving EUR 43 million in 2012;

(k) ministerial decisions to complete the full implementation of the new wage grid in all the pertinent entities, and legislation on the modalities for the recovery of wages paid in excess from November 2011 afterwards.

(l) the amendement of Articles 3 and 21 of Law 4038/2012 so that the conditions to extend the instalment plans for overdue taxes and social contributions are revised: instalment plans will only apply to existing overdue amounts below EUR 10 000 for individuals and EUR 75 000 for corporations. Tax payers applying for an extended instalment plan should disclose all their financial statements to the tax authorities.

(m) a framework law, with an in-depth revision of the functioning of secondary/supplementary public pension funds aimed at stabilising pension expenditure, guaranteeing the budgetary neutrality of these schemes, and ensuring medium- and long-term sustainability of the system.'

3. In Article 2, paragraph 8 is amended as follows:

(a) point (a) and (b) are replaced by the following:

'(a) a reform of the secondary/supplementary pension schemes designed in consultation with the European Commission, ECB and IMF, and validated by the EU Economic Policy Committee as regards its estimated impact on long-term sustainability. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the National Actuarial Authority.

(b) an adjustment of pharmacies' profit margins and the introduction of regressive profit margins with the aim of reducing the overall profit margin to below 15 percent.'

(b) the following points are added:

'(c) the finalisation of the on-going functional review on social programmes;

(d) decisions to provide for the Implementing Regulation of the SPPA (Single Public Procurement Authority); the SPPA starts its operations to fulfil its mandate, objectives, competences and powers as defined in the law on the SPPA and the Action Plan agreed with the European Commission in November 2010; appointment of the members of the SPPA;

(e) the identification of the schemes for which lump sums paid on retirement are out of line with contributions paid, and adjustment of the payments.

(f) a reduction of the pharmaceutical wholesalers' profit margins to converge to 5 percent upper limit.

(g) the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system).

(h) the appointment of all legal, technical and financial advisors for the privatisations planned for 2012 and 2013.'

4. In Article 2, paragraph 9, point (a) is replaced by:

'(a) the finalisation of the review of public spending programmes. This review shall draw on external technical assistance and focus on pensions and social transfers (in a manner that will preserve basic social protection), defence spending without prejudice to the defence capability of the country and restructuring of central and local administrations; a further rationalization of pharmaceutical spending and operational spending of hospitals, and of welfare cash benefits will also be specified;

(b) the adoption of a tax reform simplifying the tax system, eliminating exemptions and preferential regimes, including broadening bases, thus allowing a gradual reduction in tax rates as revenue performance improves. This reform relates to the personal income tax, corporate income tax and VAT, property taxes, as well as social contributions, and will maintain the relative tax burden from indirect taxes;

(c) the revision of the legal values of real estate to better align them with market prices;

(d) the discontinuation of payments in cash and cheque in tax offices which should be replaced by bank transfers, so that staff time is freed-up to focus on more value added work (audit, collection enforcement and taxpayer advice);

(e) reduction by 12 percent, on average in the 'special wages' of the public sector, to which the new wage grid does not apply. This will apply from 1 July 2012 on and deliver savings of at least EUR 205 million (net after taking into account the impact on taxes and social contributions).'

5. In Article 2, the following paragraphs are added:

'(10) Greece shall adopt the following measures by the end of September 2012:

(a) a draft budget for 2013 in line with the primary surplus target established in Article 1(2);

(b) rules and procedures for centralised purchasing/framework contracts for frequently purchased supplies or services at central government level with the obligation for ministries and central government bodies to source via these contracts and optional use for regional entities.

(11) Greece shall adopt the following measures by the end of December 2012:

(a) the final adoption of the budget for 2013 in line with the primary surplus target established in Article 1(2);

(b) legislation streamlining the procedure for submission and approval of supplementary budgets.'

Article 2

This Decision shall take effect on the day of its notification.

Article 3

This Decision is addressed to the Hellenic Republic.

Done at Brussels,

For the Council
The President