COUNCIL DECISION

of 16 February 2010

giving notice to Greece to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit

(2010/182/EU)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the recommendation from the Commission,

Whereas:

(1) In accordance with Article 126(1) of the Treaty on the Functioning of the European Union (TFEU), 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 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of 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 excessive deficit procedure. 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) 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 and issued recommendations to correct the excessive deficit by 2010 at the latest, in accordance with Article 104(7) TEC and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure [1]. The Council also set a deadline of 27 October 2009 for effective action to be taken.

(5) The actual and planned government deficit and debt data notified in April 2009 by Greece were substantially revised upwards in the October 2009 notification. The deficit figure for 2008 rose to 7¾ % of GDP (from the 5 % of GDP notified in April 2009), while the debt ratio is reported to have reached 99 % of GDP at the end of 2008 (as compared to 97,6 % reported in April 2009). In accordance with Article 15(1) of Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community [2], the Commission (Eurostat) expressed a general reservation on the quality of actual data reported by Greece, due to 'significant uncertainties' over the figures notified by Greece. The Commission (Eurostat)'s reservation on the Greek government finance statistics has not yet been withdrawn and therefore the Greek government finance statistics have not currently been validated and are subject to further revisions. According to the Commission services' autumn 2009 forecasts and the January 2010 update of the Greek stability programme (hereinafter 'the January 2010 update'), the general government deficit reached 12¾ % of GDP in 2009, compared with the target of 3,7 % of GDP in the January 2009 update. On the basis of the officially projected real GDP growth rate of – ¼ % in 2010, the 2010 budgetary target stands at 8,7 % of GDP which is well above the reference value of 3 % of GDP.

(6) On 2 December 2009, the Council established, in accordance with Article 126(8) TFEU, that Greece had taken no effective action in response to the Council Recommendation under Article 104(7) TEC of 27 April 2009 (hereinafter 'the Council Recommendation of 27 April 2009').

(7) On 11 February 2010, the European Council considered the fiscal situation in Greece, supported the Greek government's efforts and commitment to do whatever is necessary, including the adoption of additional measures, to ensure that the ambitious targets set in the stability programme are met, and called on Greece to implement all measures in a rigorous and determined manner to effectively reduce the fiscal deficit ratio by 4 percentage points of GDP in 2010.

(8) In accordance with Article 126(9) TFEU, if a Member State persists in failing to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State to take, within a specified time limit, measures for the deficit reduction. This is not the first time that the Council decides to give notice to Greece under Article 126(9) TFEU. On 17 February 2005, the Council decided to give notice to Greece, in accordance with Article 104(9) TEC, to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit.

[1] OJ L 209, 2.8.1997, p. 6.

[2] OJ L 145, 10.6.2009, p. 1.

(9) The following factors should be taken into account in determining the content of the notice under Article 126(9) TFEU, including a deadline for the correction of the excessive deficit. First, the estimated deficit outturn for 2009 was substantially higher than expected when the Council Recommendation of 27 April 2009 was adopted and expenditure slippages and revenue shortfalls more than offset the impact of the budgetary consolidation measures implemented in the course of 2009. The total adjustment necessary to correct the excessive deficit is higher than 9¾ percentage points of GDP. Second, the nominal budgetary adjustment foreseen in the January 2010 update amounts to 4 percentage points of GDP, of which, according to the Greek authorities, two-thirds result from permanent measures.

(10) In the light of these factors, it appears that the deadline which was set in the Council Recommendation of 27 April 2009 for the correction of the excessive deficit in Greece needs to be extended, given the sheer size of the consolidation required, by 2 years to 2012, in line with the January 2010 update.

(11) On 16 February 2010, the Council adopted the Recommendation to Greece ([1]) with a view to ending the inconsistency with the broad guidelines of the economic policies in Greece and removing the risk of jeopardising the proper functioning of the economic and monetary union (hereinafter 'the Council Recommendation of 16 February 2010').

(12) On the basis of real GDP growth rates of – ¼ % and ¾ %, according to the Commission services' autumn 2009 forecast for 2010 and 2011, and given the risks to the budgetary outlook, the rigorous implementation of the 2010 budget will be paramount to put government accounts on a path leading to the correction of the excessive deficit by 2012. The adoption of concrete permanent measures in 2011 and 2012 will be necessary to attain government deficits not exceeding 5,6 % in 2011 and 2,8 % of GDP in 2012. The fiscal effort measured in structural terms to reach such a deficit-reduction path should be at least 3½ % of GDP in 2010 and 2011 and 2½ % of GDP in 2012.

(13) The correction of the excessive deficit requires a number of specific cuts in government expenditure (including, in particular, reductions in the wage bill, social transfers and public employment) and increases in revenue (including, in particular, a tax reform, increases in excise and real estate taxes), as well as a number of improvements in the Greek fiscal framework (such as medium-term budgeting, the adoption of fiscal rules and a number of institutional changes). Most of these measures have been outlined by the Greek authorities themselves in the January 2010 update. The full implementation of all the necessary measures within fixed deadlines should be explicitly requested since it appears strictly necessary to restore the situation of public finances in Greece in a credible and sustainable manner. Given the risks related to the planned fiscal consolidation path, Greece shall, as announced in the stability programme, stand ready to adopt additional measures and implement them in order to ensure that the adjustment path is followed.

(14) In view of the serious and recurrent deficiencies observed in the compilation of fiscal statistics in Greece, and in order to allow for an adequate monitoring of the situation of public finances in Greece, further efforts are needed to improve the collection and processing of general government data required under the existing legal framework, in particular by enhancing the mechanisms that ensure the prompt and correct supply of these data. This includes the quarterly and annual compilation of government finance statistics in accordance with Regulations (EC) No 2223/96 ([2]), (EC) No 264/2000 ([3]), (EC) No 1221/2002 ([4]), (EC) No 501/2004 ([5]), (EC) No 1222/2004 ([6]), (EC) No 1161/2005 ([7]) and (EC) No 479/2009 as well as the monthly publication of data on the State budget execution and the prompt availability of financial data on social security, local government and extra-budgetary funds. However, taking into account that the administrative changes required to compile reliable and trustworthy fiscal statistics may take time, it is important that the change in the government debt level be regularly monitored and that policy targets be defined both in relation to the deficit and the change in debt level.

([1]) See page 65 of this Official Journal.

([2]) Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (OJ L 310, 30.11.1996, p. 1).

([3]) Commission Regulation (EC) No 264/2000 of 3 February 2000 on the implementation of Council Regulation (EC) No 2223/96 with respect to short-term public finance statistics (OJ L 29, 4.2.2000, p. 4).

([4]) Regulation (EC) No 1221/2002 of the European Parliament and of the Council of 10 June 2002 on quarterly non-financial accounts for general government (OJ L 179, 9.7.2002, p. 1).

([5]) Regulation (EC) No 501/2004 of the European Parliament and of the Council of 10 March 2004 on quarterly financial accounts for general government (OJ L 81, 19.3.2004, p. 1).

([6]) Council Regulation (EC) No 1222/2004 of 28 June 2004 concerning the compilation and transmission of data on the quarterly government debt (OJ L 233, 2.7.2004, p. 1).

([7]) Regulation (EC) No 1161/2005 of the European Parliament and of the Council of 6 July 2005 on the compilation of quarterly non-financial accounts by institutional sector (OJ L 191, 22.7.2005, p. 22).

(15) Gross public debt at the end of 2009 is estimated to have exceeded 113 % of GDP. This is among the highest debt-to-GDP ratio in the Union, and is well above the 60 % of GDP reference value established under the TFEU. Coupled with the developments in the market and the implied re-pricing of risk, this does not only render the financing of any additional issuance more expensive, but also increases the cost of refinancing the existing stock of public debt. Moreover, the contribution to the changes in debt levels of factors other than net borrowing has been large. It is necessary for Greece to take further action to control such factors in order to reduce the debt ratio at a satisfactory pace, consistent with the projections for the general government balance and nominal GDP growth. The annual change in general government debt nominal levels in 2010-2012 should be in line with the deficit targets and with a total stock-flow adjustment of ¼ % of GDP per year in 2010, 2011 and 2012.

(16) Greece should submit, by 16 March 2010, a report spelling out the measures and the calendar for implementation to achieve the 2010 budgetary targets. Greece should also submit regular reports to the Council and Commission outlining how measures specified in this Decision are being implemented. Given the gravity of the fiscal situation in Greece, these reports should be submitted regularly as from 15 May 2010 and should be made public. In particular, the reports should include a description of the measures implemented, and those to be implemented in 2010, in order to consolidate public finance and improve their long-term sustainability. Given the interaction between fiscal consolidation and the need implement structural reform and improve competitiveness, Greece should also include in these reports the measures taken in response to the Council Recommendation of 16 February 2010. Furthermore, the reports should also include information on the monthly State budget execution; the budgetary implementation by social security and local government; debt issuance; developments in public sector employment; expenditure pending payment and, at least annually, the financial situation of public enterprises. Given the interaction between fiscal consolidation and the need to implement structural reforms and improve competitiveness, the Council has invited Greece to report on measures in response to the Council Recommendation of 16 February 2010 in the context of the quarterly reports provided in this Decision. The Commission and the Council will examine the reports with a view to assessing progress made towards the correction of the excessive deficit.

(17) The statement by the Heads of State or Government of the European Union of 11 February 2010 invited the Commission to closely monitor the implementation of this Decision in liaison with the ECB and to propose needed additional measures.

(18) After the excessive deficit has been corrected, Greece shall take the necessary measures to ensure that the medium-term objective (MTO) of a balanced budget in structural terms is achieved as soon as possible. To this end, the Greek authorities should keep ensuring the implementation of permanent measures to control current primary expenditure, including in particular the wage bill, social transfers, subsidies and other transfers. Moreover, Greece should ensure that fiscal consolidation is also geared towards enhancing the quality of public finances and contribute to recover competitiveness of the economy, within the framework of a comprehensive reform programme, while swiftly implementing policies to further reform the tax administration. In view of the mounting level of debt and the projected increase in age-related expenditure, the Greek authorities should continue to improve the long-term sustainability of public finances,

HAS ADOPTED THIS DECISION:

Article 1

1. Greece shall put an end to the present excessive deficit situation as rapidly as possible and, at the latest, by the deadline of 2012.

2. The adjustment path towards the correction of the excessive deficit shall include a structural annual adjustment of at least 3½ percentage points of GDP in 2010 and 2011, and of at least 2½ percentage points of GDP in 2012.

3. The adjustment path referred to in paragraph 2 requires that the general government deficit does not exceed EUR 21 270 million in 2010, EUR 14 170 million in 2011 and EUR 7 360 million in 2012.

4. The adjustment path referred to in paragraph 2 requires that the annual change in the general government consolidated gross debt does not exceed EUR 21 760 million in 2010, EUR 14 680 million in 2011 and EUR 7 880 million in 2012.

5. The reduction of the deficit should be accelerated if the economic or budgetary conditions turn out better than currently expected.

Article 2

In order to put an end to the situation of excessive deficit and comply with the adjustment path, Greece shall implement a number of fiscal consolidation measures, including those spelled out in the stability programme, and in particular:

A. URGENT FISCAL MEASURES TO BE TAKEN BY 15 MAY 2010

As outlined in the stability programme, and including the fiscal measures announced on 2 February 2010, Greece shall:

Expenditure

(a) move 10 % of budgetary appropriations (other than wages and pensions) of the government's departments in the budget for 2010 to a contingency reserve, pending a reallocation of appropriations among departments and the identification of spending programmes to be rationalised, leading to a sizeable permanent reduction in expenditure;

(b) reduce the wage bill, including by freezing nominal wages in central government, local governments, state agencies, and other public institutions and implementing employment cuts; stop new recruitment in 2010 and cancel vacancies in the general government sector, including temporary contracts, in particular by not replacing permanent officials who retire;

(c) cut special allowances paid to civil servants (including from off-budget accounts) leading to a cut in total remuneration in the general government sector, as a first step to improve the public wage system and streamline the public wage grid;

(d) adopt nominal cuts in transfers paid by the social security, including through measures to restrict the indexation of benefits and entitlements;

Revenue

(e) implement a progressive tax scale for all sources of income and a horizontally unified treatment of income generated from labour and capital assets;

(f) abrogate all exemptions and autonomous taxation provisions in the tax system, including income from special allowances paid to civil servants;

(g) introduce presumptive taxation for self-employed persons;

(h) introduce permanent levies on buildings and increase tax rates on real estate as compared to the rates as of 31 December 2009;

(i) increase tobacco, alcohol and fuel excise duties, as compared to the rates as of 31 December 2009;

(j) spell out in detail and implement, by the end of March 2010, the currently planned tax system reforms, while using the potential efficiency gains to further reduce the deficit.

B. SUPPORTING MEASURES TO SAFEGUARD THE 2010 BUDGETARY TARGETS

(a) to the extent that a number of risks associated with the deficit and debt ceilings provided in Article 1(3) and (4) materialise, Greece shall announce, in the report to be presented by 16 March 2010, measures additional to those provided in Article 2, Section A, to ensure that the 2010 budgetary target is met. Additional measures should focus on expenditure cuts (for example, cutting further current and capital expenditure, including by cancelling budgetary appropriations in the contingency reserve), but also include revenue-increasing measures (for example, increasing VAT revenue, establishing excise duties on luxury goods, including private cars, further increasing excise duties on energy products). The first assessment in this regard will be undertaken on the occasion of the first reporting on 16 March 2010.

C. OTHER MEASURES TO BE ADOPTED BY THE END OF 2010

Expenditure

(a) adopt necessary reforms to significantly reduce the budgetary impact of ageing through a reform of the healthcare and pension systems, to be validated by the Economic Policy Committee peer-review process; in particular, adopt a parametric reform of the pension system which should ensure that the pension system is financially sustainable in the light of an ageing population; to this end, the reform should include lowering the upper limits on pensions, a progressive increase in the statutory retirement age of both women and men, and a change in the pension award formula to better reflect contributions paid throughout a person's professional life and to improve generational fairness and rationalise the system of special allowances for low pensions;

(b) reduce public sector employment in the general government by further cutting temporary contracts and implementing the rule of 1 recruitment for every 5 retirements;

(c) reform the wage payment system for direct public administration employees, providing unified principles in setting and planning wages; streamlining the wage grid, while aiming at reducing the wage bill; wage bill savings at local level also need to be achieved; the new unified public sector wage grid has to be extended, but also refined, to apply to local governments and various other agencies and also ensure that the best performers are kept in the public sector;

Revenue

(d) enhance in earnest the fight against tax evasion and fraud (in particular, with regard to VAT, corporate income tax and the taxation system of the self-employed persons' income), by also strengthening the legal enforcement of tax payments and using potential returns to further reduce the deficit;

(e) pursue the modernisation of the tax administration, including by setting up a fully accountable tax collection department, which should set annual targets and operate within monitoring assessment systems of performance for tax offices; allocate the necessary resources in terms of high-level personnel, infrastructure and equipment support, managerial organisation and information-sharing systems; which should have sufficient safeguards against political interference;

Fiscal framework

(f) spell out in detail the measures to be implemented in 2011 and 2012, in order to comply with the targets in the January 2010 update;

(g) strengthen the position of the Ministry of Finance in relation to the line ministers in the course of the preparation of the annual budget legislation and reinforce its control mechanisms during budgetary execution; ensure, in addition, the effective implementation of programme-based budgeting;

(h) pursue the reform of the General Accounting Office, including by setting up a fully accountable budget department, which should set multiannual expenditure targets and operate within monitoring assessment systems of performance; allocate the necessary resources in terms of high-level personnel, infrastructure and equipment support, managerial organisation and information-sharing systems; which should have sufficient safeguards against political interference;

(i) adopt a medium-term budgetary framework, including binding spending ceilings based on a multiannual expenditure rule, and set up an independent fiscal policy agency, reporting publicly on the budgetary plans and execution of all public-spending entities of the general government on a timely basis;

(j) within the medium-term budgetary framework referred to in point (i), announce without delay additional permanent expenditure-reducing measures for the medium-term;

(k) enhance in earnest the fight against corruption in public administration, in particular in relation to public wages and allowances, public procurement, and tax assessment and collection;

(l) take the necessary steps to avoid a reduction in the average maturity of public debt;

(m) pursue the efforts to control factors other than net borrowing, which contribute to the change in debt levels.

D. OTHER FISCAL MEASURES TO BE ADOPTED BY 2012

Expenditure

(a) in 2011 and 2012, implement adjustment measures of a permanent nature, mainly focused on current expenditure; more specifically, adopt expenditure cuts aiming at permanent savings in government consumption expenditure, including the wage bill, and social transfers, and reduce public employment;

Revenue

(b) within a medium-term budgetary framework, continue to implement with rigor the reform of the tax administration, while allocating potential revenues to deficit reduction;

Fiscal framework

(c) strengthen the institutional mechanisms for providing reliable and plausible official budgetary forecasts that take into account available recent execution developments and trends; to this end, the official macroeconomic forecasts should be reviewed by external experts; the Commission services' forecast shall be taken as a benchmark;

(d) refrain from including in the budgetary targets deficit-reducing measures of a one-off nature;

(e) within the medium-term budgetary framework, adopt additional permanent expenditure-reducing measures aimed at achieving the MTO of close to balance or in surplus.

Article 3

In order to allow timely and effective revenue and expenditure control and the proper monitoring of fiscal developments, Greece should:

(a) by 15 May 2010, adopt legislation that makes it compulsory to provide public reports on budgetary execution on a monthly basis with a delay of no more than 10 days after the month-end;

(b) enforce the current legal obligation on social security funds and hospitals to publish annual official accounts and balance sheets;

(c) further pursue the efforts to improve the collection and processing of general government data, notably by enhancing the control mechanisms of statistical authorities and the General Accounting Office and ensuring effective personal responsibility for cases of misreporting, in order to ensure the prompt supply of high-quality general government data required by Regulations (EC) No 2223/96, (EC) No 264/2000, (EC) No 1221/2002, (EC) No 501/2004, (EC) No 1222/2004, (EC) No 1161/2005, (EC) No 223/2009 [1] and (EC) No 479/2009;

[1] Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on Community Statistics, and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities (OJ L 87, 31.3.2009, p. 164).

(d) cooperate with the Commission (Eurostat) so as to promptly agree on an action plan to tackle statistical, institutional and governance deficiencies;

(e) cooperate with the Commission (Eurostat) and receive the appropriate resident technical assistance on the compilation of fiscal and other macroeconomic statistics.

Article 4

1. Greece shall submit to the Council and the Commission and shall make public, by 16 March 2010 at the latest, a report spelling out the implementation calendar of the measures established pursuant to Article 2 of this Decision in order to achieve the 2010 budgetary targets, including, the necessary measures envisaged in Article 2, Section B.

2. Greece shall submit to the Council and the Commission and shall make public, by 15 May 2010 at the latest, a report outlining the policy measures to comply with this Decision. Greece shall thereafter submit and make such reports public on a quarterly basis.

3. The reports referred to in paragraph 2 should contain detailed information on:

(a) concrete measures implemented by the date of the report in order to comply with this Decision, including their quantified budgetary impact;

(b) concrete measures planned to be implemented after the date of the report in order to comply with this Decision, their implementation calendar and estimation of their budgetary impact;

(c) the monthly State budget execution;

(d) infra-annual budgetary implementation by social security, local government and extra budgetary funds;

(e) government debt issuance and reimbursement;

(f) permanent and temporary public sector employment developments;

(g) government expenditure pending payment (cumulated arrears);

(h) the financial situation in public undertakings and other public entities (such information should be provided on a yearly basis).

4. The Commission and the Council shall analyse the reports with a view to assessing Greece's compliance with this Decision.

In the context of these assessments, the Commission may indicate the measures needed to respect the adjustment path set by this Decision for the correction of the excessive deficit.

Article 5

Greece shall take effective action to comply with this Decision by 15 May 2010.

Article 6

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

Article 7

This Decision is addressed to the Hellenic Republic.

Done at Brussels, 16 February 2010.

For the Council

The President

E. SALGADO