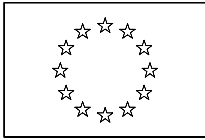

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION

Greece

Report prepared in accordance with Article 104(3) of the Treaty

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

Many EU countries are presently facing deficits above the reference value. The often strong deterioration in the budgetary position, both as regards the deficit and the debt, must be seen in the context of the unprecedented global financial crisis and economic downturn. However in Greece, fiscal imbalances have been high and persistent for many years, in spite of the buoyant economic activity up to 2008, and have 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 problems 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 not only remains above the 60% of GDP reference value, but is on an upward path. In its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December, the Commission called for a fiscal stimulus, which should be differentiated across Member States in accordance with their positions in terms of sustainability of government finances and competitive positions and should be reversed when economic conditions improve. In view of the large imbalances of the Greek economy, and in line with 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 in the future.

The Stability and Growth Pact requires the Commission to prepare a report such as the present one whenever the deficit of a Member State exceeds the 3% of GDP reference value. This report analyses the reasons for the breach of the reference value with due regard to the economic background and all other relevant factors. The amendments to the Stability and Growth Pact in 2005 aimed specifically at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. This means for instance that, if an "excessive deficit" is deemed to exist, adequate attention needs to be paid to the economic background when making recommendations on the pace of the correction. 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.

2. LEGAL BACKGROUND

This report which assesses recent and current budgetary developments in Greece and reviews the short- and medium-term prospects in the light of overall economic conditions and policy action taken by the government is prepared according to Article 104(3) of the Treaty.

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"[1], 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 this report 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".

Table 1: General government deficit and debt [a]

	2003	2004	2005	2006	2007	2008		2009		2010	
						COM	SP	COM	SP	COM	SP
General government balance	-5.7	-7.5	-5.1	-2.8	-3.5	-3.4	-3.7	-3.7	-3.7	-4.2	-3.2
General government gross debt	97.8	98.6	98.8	95.9	94.8	94.0	94.0	96.2	96.3	98.4	94.7

Note:
[a] In percent of GDP.
Source: Eurostat and Commission services' January 2009 interim forecast.

An EDP for Greece was initiated in May 2004 by the Commission with the adoption of a report under Article 104(3) in view of a deficit in 2003, estimated at the time at 3.2% of GDP, i.e. above the reference value. The Council, upon the corresponding Commission recommendation, placed Greece in excessive deficit on 5 July 2004 under Article 104(6). At the same time, and also based on a Commission recommendation, the Council addressed recommendations under Article 104(7) to Greece with a view to bringing the excessive deficit situation to an end by 2005. On 18 January 2005, the Council decided in accordance to Article 104(8) that no effective action had been taken in response to these recommendations. On 17 February 2005, the Council decided, on a recommendation from the Commission in accordance with Article 104(9), to give notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation and extended the deadline for the correction, by one year, to 2006. On 6 April 2005, the Commission adopted a communication to the Council concluding that action taken until then was consistent with the Council decision and that, while the budgetary situation remained vulnerable, no further steps under the EDP were necessary at that stage On 5 June 2007, the Council decided, again on a recommendation from the Commission, to abrogate the EDP according to Article 104(12). This was based on the reduction of the general government deficit from 7.9 % of GDP in 2004 to 2.6 % of GDP in 2006, implying that the deficit had been brought below the 3% of

[1] OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5). The report also takes into account 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/about/activities/sgp/main_en.htm.

GDP reference value in a credible and sustainable manner. Government debt also declined from 108.5 % of GDP in 2004 to 104.5 % in 2006 sufficiently diminishing towards the 60% of GDP reference value.

According to data notified by the authorities in October 2008[2] and validated by Eurostat[3], the general government deficit reached 3.5% of GDP in 2007, thus exceeding the 3% of GDP reference value, while the general government gross debt stood at 94.8% of GDP, above the 60% of GDP reference value but 3 percentage points lower than five years ago. According to the Commission services' January 2009 interim forecast, the general government deficit is forecast to remain clearly above the reference value over the forecast horizon, while the general government debt ratio is projected to resume on an upward path.

The figures for the 2007 deficit and gross debt provide *prima facie* evidence on the existence of an excessive deficit in Greece in the sense of the Treaty and the Stability and Growth Pact. The Commission has therefore decided to initiate the excessive deficit procedure for Greece with the adoption of this report. Section 2 of the report examines the deficit criterion and Section 3 the debt criterion. Section 4 deals with public investment and other relevant factors. The document takes into account the Commission services’ January 2009 interim forecasts, released on 19 January.

3. DEFICIT CRITERION

In 2007, the general government deficit reached 3.5% of GDP[4].

Although in excess of 3%, the difference is the maximum deviation allowing to consider the deficit-to-GDP ratio still close to the Treaty reference value.

The excess over the 3% of GDP reference value is not exceptional. In particular:

- it does not result from an unusual event in the sense of the Treaty and the Stability and Growth Pact; this definition is to be applied narrowly to cover events such as wars or natural disasters;

- it does not result from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact. Between 2003 and 2007, GDP growth was close to 4½% on average (4% in 2007), compared to an average potential growth of around 3½%. As a result, the output gap remained significantly positive and increased from 1.4% in 2005 to 3% in 2007. Therefore the breach of the 3% of GDP limit is not the result of a severe

[2] According to Council Regulation (EC) No 3605/93, 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?_pageid=2373,58110711&_dad=portal&_schema=portal.

[3] News Release 147/2008 of 22 October 2008 on the provision of data for the excessive deficit procedure.

[4] Eurostat has withdrawn the reservation on the data reported by Greece in the April 2008 notification (News Release 54/2008 of 18 April 2008). The 2007 deficit was revised upwards from 2.8% of GDP notified in April 2008 to 3.5% of GDP notified in October 2008. The deficit outturn for 2007 included the effect of deficit-increasing one-offs of 1 percentage point (mainly related to the arrears paid to the EU budget following the GNI revision, the cost of summer forest fires and the cost of early elections in September) and deficit-reducing measures of 0.8 of a percentage point of GDP (related to payments and deferred payments by private banks to social security).

economic downturn, which in the sense of the Treaty would have to precede the breach of the reference value.

Table 2: Macroeconomic and budgetary developments [a]

	2003	2004	2005	2006	2007	2008		2009		2010	
						COM	SP	COM	SP	COM	SP
Real GDP (% change)	5.6	4.9	2.9	4.5	4.0	2.9	3.0	0.2	1.1	0.7	1.6
Potential GDP (% change)	4.0	3.6	3.5	3.5	3.4	3.1	3.2	2.6	2.8	2.4	2.4
Output gap (% of potential GDP)	0.6	1.9	1.4	2.4	3.0	2.8	1.9	0.5	0.3	-1.2	-0.8
General government balance	-5.7	-7.5	-5.1	-2.8	-3.5	-3.4	-3.7	-3.7	-3.7	-4.2	-3.2
Primary balance	-0.7	-2.6	-0.7	1.3	0.6	0.6	0.3	0.6	0.8	0.0	1.2
One-off and other temporary measures	0.0	0.0	0.0	0.5	-0.2	0.2	0.4	0.7	0.5	0.0	0.0
Government gross fixed capital formation	3.6	3.7	2.9	3.0	3.0	3.0	3.0	2.6	2.7	2.6	2.7
Cyclically-adjusted balance	-6.0	-8.3	-5.7	-3.8	-4.8	-4.7	-4.5	-3.9	-3.8	-3.7	-2.8
Cyclically-adjusted primary balance	-1.0	-3.3	-1.3	0.2	-0.7	-0.7	-0.4	0.3	-0.8	0.5	-1.5
Structural balance [bc]	-6.0	-8.3	-5.7	-4.3	-4.6	-5.0	-4.5	-4.7	-4.3	-3.7	-2.8
Structural primary balance	-1.0	-3.4	-1.3	-0.2	-0.5	-1.0	-0.5	-0.4	0.2	0.5	1.6

Notes:

[a] In percent of GDP unless specified otherwise.

[b] Cyclically-adjusted balance excluding one-off and other temporary measures.

Source: Eurostat and Commission services' January 2009 interim forecasts

The excess over the 3% of GDP reference value is not temporary in the sense of the Treaty and the Stability and Growth Pact. According to the Commission services' January 2009 interim forecast, the general government deficit net of one-offs will attain 3.6% of GDP in 2008 (or 3.4% of GDP including one-offs). This projection is based on a GDP growth rate of 2.9% and takes account of the execution of the 2008 Budget Law. For 2009, the Commission services' January 2009 interim forecast projects the general government deficit net of one-offs at 4.4% of GDP (or 3.7% of GDP including one-offs), based on a GDP growth projection of ¼% and on the basis of a prudent assessment of the 2009 Budget Law, approved by the Parliament on 21 December. This assessment is subject to downside risks in the macro-economic scenario, associated also with the severe economic downturn in major trading partner economies (especially in the euro-area, Balkans and South Eastern Mediterranean countries) and a further tightening of credit conditions. Based on the customary unchanged policy assumption, the 2010 deficit is projected at 4.2% of GDP.

In sum, although the deficit in 2007 was close to the 3% of GDP reference value, the excess over the reference value is neither exceptional nor temporary in the sense of the Treaty and the Stability and Growth Pact. This analysis suggests that the deficit criterion in the Treaty is not fulfilled.

4. DEBT CRITERION

In 2007, the general government gross debt was 94.8% of GDP, above the 60% of GDP Treaty reference value. Between 2004 and 2007, the ratio decreased by 3¾ percentage points of GDP, i.e. by ¼ percentage points of GDP per year on average. The combined effect of increasing primary surpluses and strong nominal GDP growth have been the main driving forces behind the projected path of debt-reduction, while the adjustment path has been slowed down by persistently large debt-increasing stock-flow adjustment (SFA) of around 1½% of

GDP per year, on average, in 2005-2007[5]. According to the Commission services' January 2009 interim forecast, the general government debt ratio is projected on an upward pace over the forecast horizon, exceeding 96% of GDP in 2009 and, under a no policy change scenario reaching 98½% of GDP in 2010, compared with 94¾ in 2007. This owes to high deficit levels, weak nominal GDP growth, and still positive and large SFAs[6]. In addition, possible debt increasing financial transactions within the framework of the financial sector support package (see section 5.4 of this report) may put further upward pressure to the debt-to-GDP ratio.

The current deficit levels and estimates of medium-term growth are pointing to a debt ratio converging to a level above 60% of GDP. Therefore, the debt ratio cannot be considered as "sufficiently diminishing and approaching the reference value at a satisfactory pace" in the sense of the Treaty and the Stability and Growth Pact.

This analysis suggests that the debt criterion in the Treaty is not fulfilled.

Table 3: Debt dynamics [a]

	2004	2005	2006	2007	2008		2009		2010	
					COM	SP	COM	SP	COM	SP
Government gross debt ratio	98.6	98.8	95.9	94.8	94.0	94.6	96.2	96.3	98.4	96.1
Change in debt ratio [b] (1 = 2+3+4)	0.7	0.3	-3.0	-1.0	-0.9	-0.2	2.2	1.7	2.3	-0.2
Contributions:										
• Primary balance (2)	2.6	0.7	-1.3	-0.6	-0.6	-0.3	-0.6	-0.8	0.0	-1.2
• "Snowball" effect (3)	*-2.7*	*-1.5*	*-3.1*	*-2.2*	-2.1	-2.4	-1.2	1.1	-1.0	0.6
of which:										
Interest expenditure	*4.9*	*4.4*	*4.1*	*4.1*	4.0	4.0	4.2	4.5	4.1	4.4
Real GDP growth	*-4.4*	*-2.7*	*-4.1*	*-3.6*	-2.6	-2.6	-0.2	-1.0	-0.6	-1.5
Inflation (GDP deflator)	*-3.0*	*-3.1*	*-3.0*	*-2.6*	-3.7	-3.8	-2.8	-2.4	-2.5	-2.4
• Stock-flow adjustment (4)	0.8	1.1	1.4	1.8	2.1	2.6	1.6	1.5	1.2	0.5

Notes:
[a] In percent of GDP.
[b] The change in the gross debt ratio can be decomposed as follows:

$$\frac{D_t}{Y_t}-\frac{D_{t-1}}{Y_{t-1}}=\frac{PD_t}{Y_t}+\left(\frac{D_{t-1}}{Y_{t-1}}*\frac{i_t-y_t}{1+y_t}\right)+\frac{SF_t}{Y_t}$$

where t is a time subscript; *D, PD, Y* and *SF* are the stock of government debt, the primary deficit, nominal GDP and the stock-flow adjustment respectively, and i and y represent the average cost of debt and nominal GDP growth. The term in parentheses represents the "snow-ball" effect, measuring the combined effect of interest expenditure and economic growth on the debt ratio.
Source: Eurostat and Commission services' January 2009 interim forecasts.

[5] Details on the composition of SFA in Greece are available in the reporting of deficit and debt levels transmitted to Eurostat by the Greek authorities on 1 October 2008 (see http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_DS_GFS/PGE_DS_GFS_3/EL_2008-10.PDF) and in the Eurostat note "Stock-flow adjustment (SFA) for the Member States, euro area and EU27 for the period 2004-2007" (http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/STOCK_FLOW_2008_OCT/EN/STOCK_FLOW_2008_OCT-EN.PDF). The SFAs for Greece in years 2004-07 include statistical discrepancies that fluctuate between -0.4% and +0.2% of GDP; these figures are not significantly different from discrepancies in other Member States.

[6] In the absence of more concrete information on the SFA drivers over the coming years and the nature and volatility of SFA, the Commission services' January 2009 interim forecast for SFA has simply extrapolated recent trends into near future.

5. RELEVANT FACTORS

Article 104(3) of the Treaty provides that the Commission report "shall also take into account whether the government deficit exceeds government investment expenditure and take into account other relevant factors including the medium-term economic and budgetary position of the Member State". These factors are further clarified in Article 2(3) of Council Regulation (EC) No 1467/97, which also specifies that "any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value and which the Member State has put forward to the Commission and to the Council" need to be given due consideration.

In view of the above provisions, the following four subsections consider in turn (1) the medium-term economic position; (2) the medium-term budgetary position (including public investment); (3) other factors put forward by the Member State; (4) other factors considered relevant by the Commission.

5.1. Medium-term economic position

Cyclical conditions and potential growth

After having recorded above-potential growth rates over the period 2003-2007, the Greek economy decelerated in 2008 and is projected to further worsen in 2009, mainly due to a shrinking domestic demand and reinforced by a sluggish export sector, reflecting also the weakening international trade prospects. A mild recovery is foreseen in 2010. With potential growth rates estimated at around 2½% over 2009-2010, the Commission services' January 2009 interim forecast project headline growth at ¼% and ¾% in 2009 and 2010, respectively, which would narrow the still positive output gap, from 3% in 2007 and 2¾% of potential GDP in 2008 to ½% in 2009, while in 2010 it will turn negative. This output gap profile reflects that Greece has been enjoying good economic times in 2007 and 2008. Although economic conditions are projected to worsen, it does not constitute a severe economic downturn in the sense of the SGP. Growth prospects might also be hindered by the large external imbalance, to which high public deficits in Greece contribute in a non-negligible way. The current account deficit is projected to improve somewhat, but to remain above 13% of GDP by 2010.

Recent structural reforms

In line with the priorities put forward in the Greek national reform programme (including the latest 2008 implementation report) in the context of the Lisbon strategy for growth and jobs, the government implemented some reforms in the area of the budgetary process, with the shift to a more transparent and flexible programme-based budgetary system (see section on quality of public finances below). Actions to foster R&D and innovation, which depend on financing from the Structural Funds, are expected to be reinforced in the programming period 2007-2013. Nevertheless, the target to increase the level of R&D expenditure to 1.5% of GDP has been postponed, from 2010 to 2015. At institutional level, the parliament adopted in 2008 a law (Law 3653/2008) aiming at improving R&D governance and making possible a more systemic approach to R&D and innovation. This law will come into force the 1st January 2009. More recently, also in the context of the response to the crisis, labour market reforms have been announced reflecting the rebalancing in favour of ALMPs.

5.2. Medium-term budgetary position

Structural deficit and fiscal consolidation in good times

Significant progress has been made since 2004 to consolidate public finances. The fiscal stance, however, eased in 2007, mainly on account of optimistic projections of revenue and slippages in current primary expenditure. In the light of the economic downturn from the second half of 2008 on, the fiscal imbalances are projected to increase over the forecast horizon. The Greek headline general government deficit increased from 2.8% of GDP in 2006 (including deficit-reducing one-offs amounting to 0.5% of GDP) to 3.5% in 2007 (including one-offs with a deficit-increasing net effect of 0.2% of GDP). The structural deficit (cyclically-adjusted deficit net of one-offs) deteriorated by ¼ percentage point of GDP[7], from 4¼% of GDP in 2006 to 4½% of GDP in 2007. Looking forward, the Commission services' January 2009 interim forecast projects that the structural government deficit in 2008 would deteriorate further, by around ½ percentage point of GDP to attain 5% of GDP. For 2009, the structural deficit would improve by some ¼ percentage points of GDP attaining 4¾% of GDP. Based on the unchanged policy assumption, the 2010 structural deficit is projected to improve further, by 1 percentage point of GDP, standing 3¾% of GDP.

Public investment

After a hike of 3.7% of GDP in 2004, reflecting a significant investment effort associated to the Olympic Games, general government gross fixed capital formation has decreased to 3% in 2007, in line with its long term trend. However, the general government deficit ratio has consistently exceeded the ratio of gross fixed investment to GDP since 2000, with 2006 being the only exception. According to the Commission services' January interim forecast, the general government deficit ratio remained above the gross fixed investment ratio in 2008. In 2009, the general government deficit is also foreseen to remain clearly above the public investment ratio, which is projected at 2¾% of GDP.

Quality of public finances

Between 2004 and 2006, Greece implemented a strong fiscal adjustment, mainly based on lower capital expenditure and higher capital transfers received. While total revenue increased by 1% of GDP, total expenditure fell by 3¼% of GDP. A large part of the total adjustment was accounted by higher capital revenue and lower capital expenditure. Current expenditure fell by ¾% of GDP, mainly due to lower interest payments. All in all, current primary expenditure only fell by ¼% of GDP between 2004 and 2006. However, these marginal savings were more than offset in 2007, when current primary expenditure rose by more than 1½% of GDP. According to the Commission services' January 2009 interim forecast, current expenditure is expected to further increase by almost 1½ percentage points of GDP in 2009.

Structural shortcomings affecting the quality of the domestic budgetary framework, both in the preparation of the budget and in its execution, is at the origin of Greece's fiscal vulnerabilities, including in particular expenditure control. The budgetary process and the institutional framework have failed to ensure the achievement of the annual budgetary targets set in Budget Laws. The reform of the budget process represents a step in the right direction, although a timely implementation should be ensured. Moreover, in the absence of an effective

[7] Estimated by the Commission services, applying the common methodology on estimating output gaps.

control of primary expenditure, the low quality of the fiscal adjustment observed in recent years, which has been to a significant extent based on revenue-enhancing measures, entails risks for the sustainability of the fiscal adjustment.

Long-term sustainability of public finances

In its opinion of 4 March 2008 on the most recent stability programme, the Council assessed the long-term sustainability of Greece's public finances as being at high risk. The long-term budgetary impact of ageing cannot be duly assessed as long as commonly agreed long-term projections of pension expenditure are not available. However, it is likely to be well above the EU average. According to the latest available information dating from the 2002 stability programme update, a substantial increase in pension expenditure as a share of GDP is projected over the long term. The budgetary position in 2007 as estimated in the programme constitutes a risk to sustainable public finances even before considering the long-term budgetary impact of an ageing population. Moreover, the current level of gross debt is well above the Treaty reference value. Reducing it requires achieving high primary surpluses for a long period of time. Consolidating the public finances as planned together with continuing the on-going reform in the healthcare system and reforming the pension system aiming at containing the likely significant increase in age-related expenditures would contribute to reducing risks to the long-term sustainability of public finances. In view of the level of debt and the projected increase in age-related expenditure, the Council invited the authorities to improve the long-term sustainability of public finances by achieving the MTO, continuing the ongoing reforms in the healthcare system and reforming the pension system; updated long term projections for age-related expenditure should be produced as soon as possible. In line with this recommendation, the Greek government adopted a reform of the pension system in March 2008 aiming at the reorganization of the multi-fragmented social security system, although its impact on the fiscal sustainability which is not final yet, appears to be limited.

5.3. Other factors put forward by the Member State

In a letter of 17 November 2008, the authorities of Greece listed some relevant factors in accordance with Article 2(3) of Council Regulation (EC) No 1467/97. The analysis presented above already covers all the items put forward by the authorities. The adverse economic consequences of unforeseen and non-recurring events mentioned in the letter (wildfires in August 2007 and payment of arrears to the EU budget due to the GDP revision), amounting to 0.7% of GDP, were already incorporated in the 2007 budgetary target of 2¾% of GDP presented in the December 2007 update of the Stability Programme of Greece and also in the 2007 deficit outcome notified in April 2008.

5.4. Other factors considered relevant by the Commission

Structural and systemic problems related to the recording of Greek government accounts during the period 1997-2005 led to exceptionally large revisions in 2004 of the public finance figures, raising serious doubts about the reliability of Greek statistics[8]. As a result, fiscal outcomes for 2001-2005 were revised upwards by more than 3 percentage points of GDP on average. Further statistical revisions in October 2008, validated by Eurostat[9], revealed additional problems in the quality of public finance data, which led to an upward revision of

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[8] For further details, see Section 2 of Macro Fiscal Assessment of the December 2007 update of the Stability Programme of Greece.

[9] News Release 147/2008 of 22 October 2008 on the provision of data for the excessive deficit procedure.

the government deficit for 2007 by ¾ percentage points, thus pushing the deficit beyond the threshold of 3%. Following a methodological mission on 2-3 June 2008 and 15-19 September[10], which devoted particular attention to the recording of EU grants (in 2006 and 2007), statistical discrepancies (for 2007 data) and the coverage of source data for extra-budgetary funds, local government and social security funds, Eurostat has withdrawn the reservation on the data reported by Greece in the April 2008 notification[11].

In response to the financial crisis, the Greek government has adopted a number of measures to ensure the stability of the financial sector, including the measure of deposit guarantees, up to EUR 100,000 per depositor. The package of measures consists of a recapitalisation scheme, making available new capital to credit institutions in exchange of preferential shares', a guarantee scheme, covering new debt with a maturity between three months and three years, and a securities scheme, providing government bonds to eligible credit institutions and enhancing their access to liquidity, in particular with the ECB. In particular, the scheme provides for non-discriminatory access, as it is open to all credit institutions licensed in Greece. It is limited in time and scope, with entry windows of maximum six months and budget caps. It requires beneficiaries to pay a market-oriented remuneration. The measures target only financially sound companies; the provision of guarantees and capital and bond allocations are based on solvency and capital ratio requirements. The overall amount of the package stands at EUR 28bn (around 10% of GDP). The implicit liabilities of this support package might put pressure on debt developments in the coming years.

6. CONCLUSIONS

Despite some progress recorded in 2004-2006, fiscal imbalances in Greece have been high and persistent for many years, in spite of the buoyant economic activity over the current decade, reflecting structural weaknesses of fiscal governance. The breach of the reference value in 2007, when the economic activity in Greece was buoyant and the economic crisis had not yet started, reflect fiscal slippages in the course of 2007, rather than the impact of an economic downturn. Insufficient control of public expenditure, overoptimistic revenue projections and, structural and endemic problems related to the recording of Greek government accounts in the recent past, are largely behind fiscal imbalances in Greece. Moreover, consistently high deficits have resulted in one of the highest debt ratio in the EU, which not only remains markedly above the 60% of GDP reference value, but is projected to be on an upward path, on the assumption of unchanged policies in 2010. In view of the large imbalances of the Greek economy and, given the lack of room for fiscal manoeuvre, the government has not adopted any short-term stimulus package in response to the economic slowdown, in line with the EERP. As in several countries however, Greece has taken measures to stabilise the financial sector, which might have an impact on debt developments.

The general government deficit in Greece reached 3.5% of GDP in 2007, above but close to the 3% of GDP reference value. The excess over the reference value cannot be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. Furthermore,

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[10] According to Article 8d of Regulation (EC) No 3605/93, as amended, Eurostat ensures a permanent dialogue with Member States' statistical authorities and carries out dialogue visits and methodological visits. The methodological visits are undertaken in cases where risks or potential problems with the quality of the data are identified. The findings of these visits are available at http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2373,47631456&_dad=portal&_schema=PORTAL

[11] News Release 54/2008 of 18 April 2008 on the provision of data for the excessive deficit procedure.

it cannot be considered temporary. This suggests that the deficit criterion in the Treaty is not fulfilled.

General government gross debt has been well above the 60% of GDP reference value since 2000 and stood at 94.8% of GDP in 2007. The debt ratio cannot be considered as diminishing sufficiently and approaching the reference value at a satisfactory pace within the meaning of the Treaty and the Stability and Growth Pact. This suggests that the debt criterion in the Treaty is not fulfilled.

In line with the Treaty, this report has also examined "relevant factors", which, according to the Stability and Growth Pact, can only be taken into account in the steps leading to the decision on the existence of a excessive deficit if the double condition – that the deficit remains close to the reference value and that its excess over the reference value is temporary – is fully met. Considered on their own merit, the relevant factors in the current case on balance do not seem favourable.