COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 16.5.2007
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Recommendation for a

COUNCIL DECISION

abrogating Decision 2004/917/EC on the existence of an excessive deficit in Greece

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. BACKGROUND

Article 104 of the Treaty establishes that Member States should avoid excessive deficits and lays down a procedure for their identification and correction. The excessive deficit procedure (EDP) 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 planned or actual government deficit exceeds the reference value of 3% of GDP (unless either the deficit 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 government debt exceeds the reference value of 60% of GDP (unless the debt ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the EDP. As part of the application of this Protocol, Member States have to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93[2,3].

On 19 May 2004, the Commission initiated the EDP for Greece with the adoption of a report under Article 104(3), based on a general government deficit of 3.2% of GDP and government debt of 103% of GDP in 2003[4]. On 5 July 2004, the Council decided, on a recommendation from the Commission, that Greece was in excessive deficit according to Article 104(6)[5]. At the same time, and also based on a Commission recommendation, the Council addressed recommendations[6] under Article 104(7) to Greece with a view to bringing the situation of an excessive government deficit to an end, by 2005 at the latest. On 18 January 2005, the Council decided according to Article 104(8) and on the basis of a Commission recommendation that no effective action had been taken in response to the recommendation addressed under Article 104(7) within the specified period[7]. On 17 February 2005, the Council decided, on a recommendation from the Commission in accordance with Article 104(9)[8], to give notice to Greece to take measures for the deficit reduction judged necessary

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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).

2 OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

3 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.

4 SEC(2004) 623. Figures on general government deficit and general government gross debt for 2003 were revised on several occasions (see box). According to the most recent data, the deficit and debt in 2003 represented 6.2% of GDP and 107.8% of GDP respectively.

5 OJ L 389, 30.12.2004, p. 25.

6 All EDP-related documents for Greece can be found at the following website: http://ec.europa.eu/economy_finance/about/activities/sgp/edp_list_en.htm.

7 OJ L 107, 28.4.2005, p. 24.

8 OJ L 153, 16.6.2005, p. 29.

to bring the situation of an excessive government deficit to an end and extended the deadline for the correction, by one year, to 2006.

In its decision under Article 104(9), the Council decided that *'Greece shall put an end to the present excessive deficit situation as rapidly as possible and at the latest by 2006, through: (i) a rigorous implementation of the 2005 budget as approved by its Parliament, and (ii) implementing the 2006 adjustment measures of a permanent nature leading to a correction in the deficit of at least 0.6 percentage point of GDP'*. The Council also required Greece to further pursue the efforts to *'identify and 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'* and *'to improve the collection and processing of general government data'*. The Council required Greece to submit by the deadline of 21 March 2005 a report outlining the decision taken to respect its recommendations and further regular progress reports thereafter.

In addition, the Council urged *'Greece to take the necessary measures to ensure that budgetary consolidation towards the medium term position of government finances close to balance or in surplus is sustained through a reduction in the cyclically-adjusted deficit by at least 0.5% of GDP per year after the excessive deficit has been corrected'*.

Table 1: Adjustment endorsed by the Council on 17 February 2005

% of GDP, unless indicated otherwise	**2004**	**2005**	**2006**
General government balance	-5.5	-3.6	deficit <3
change in cyclically-adjusted balance		*+1.7*	
change in structural balance			*+0.6 at least*
Government gross debt	ca. 112	ca. 112	ca. 110
p.m.: Real GDP growth (%)	3.8	3.3	3.3

Note: Structural balance = cyclically-adjusted balance excluding one-off and other temporary measures.
Source: Council notice under Article 104(9) to Greece, quoting the Commission services' autumn 2004 forecast.

On 6 April 2005, on the basis of the revised update of the Greek stability programme of March 2005 together with the Greek authorities' public commitment of 29 March to reach a deficit below 3% of GDP in the 2006 draft budget, which were considered as the implementation report required in the Council Decision, the Commission adopted a Communication to the Council[9], concluding that the decisions taken until then by Greece was consistent with the Council Decision and that no further steps under the EDP were necessary at that stage. In its meeting of 12 April 2005, the Council concurred with this assessment.

According to Article 104(12), a Council Decision on the existence of an excessive deficit is to be abrogated, on the basis of a Commission Recommendation, when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

[9] SEC(2005) 443.

2. RECENT DEFICIT DEVELOPMENTS

Based on actual data provided by the Commission (Eurostat) following the reporting by Greece in April 2007 in accordance with Council Regulation (EC) No 3605/93[10] and on the Commission services' spring 2007 forecast, the nominal general government deficit in 2006 was 2.6% of GDP[11]. The deficit figure includes 0.6% of GDP temporary revenues, namely payments and deferred payments by banks in exchange of the assumption by social security of pension commitments. This outcome is in line with the Council Decision under Article 104(9) regarding the reduction of the nominal deficit below the 3% reference value by 2006 and is identical to the target in the December 2005 update of the Greek stability programme.

The main measures implemented in 2006 were, on the revenue side, fighting against tax evasion, a reform in property taxation and a rise in excise taxes on fuel and tobacco. A number of additional revenue enhancing measures have also been implemented during the second half of the year in order to safeguard the execution of 2006 budget, namely: an increase in the rate of income tax pre-payment for enterprises and banks, further increases of the excise tax on fuel and tobacco and an increase in the tax duty imposed on mobile connection bills. On the expenditure side, the main measures were a restraining of both the wage bill and operational expenditures, a new framework for Public Enterprises and Entities (DEKO) aiming to rationalise public spending and increase the efficiency of resource allocation, and a new legislation regarding Public Private Partnership which facilitated investment in small as well as large scale infrastructure projects without putting pressure on the Budget. The 0.4% of GDP temporary revenues initially budgeted were considered as deficit reducing. However, they turned out to be inconsistent with ESA95 and were not considered in deficit data reported in April 2007 by Eurostat. This should have increased the deficit outcome by the same amount. However, lower temporary revenues have been fully compensated by an upward revision of swaps[12,13].

Revenues and expenditure contributed to the nominal adjustment of almost 3 percentage points of GDP compared to the 2005 deficit of 5½% in almost equal shares. Expressed in terms of the GDP, total revenues increased by 1½ percentage points, with indirect taxes accounting for ½% of GDP. The remaining 1 percentage point is accounted for increases in social contributions and other revenues, including capital transfers (EU transfers). Total expenditure was reduced by 1¼ percentage points of GDP, mainly driven by reductions in

10 Eurostat News Release No 55/2007 of 23 April 2007.

11 GDP in this document refers to the unrevised GDP series provided by the Greek authorities as an annex to the EDP notification of April 2007 and not to the "revised" GDP data reported by the Greek authorities in October 2006, which could lead to an upward revision of nominal GDP by around 26% per year since 2000. Given the magnitude and complexity of the revision, it is still subject to examination by Eurostat.

12 In ESA95, swaps are contractual arrangements between two parties who agree to exchange, over time and according to predetermined rules, streams of payment of the same amount of indebtedness. The most prevalent varieties are interest rate swaps, foreign exchange swaps and currency swaps (also named cross-currency interest swaps). None of the resulting payments is considered as property income and all settlements are to be recorded in the financial account.

13 According to Regulation (EC) No 2558/2001 (OJ L 344, 28.12.2001, p. 1), which amended ESA95, swap-related flows are financial transactions and, therefore, excluded from the calculation of the government deficits. However, according to the same regulation, for the specific purpose of the excessive deficit procedure, those flows are still booked as interest. In the case of Greece, swap-related flows have contributed to reduce the 2006 government deficit that is relevant for the excessive deficit procedure by 0.29% of GDP.

primary expenditure (by ½% of GDP) and in interest expenditure (¼% of GDP). Capital expenditures were also reduced by around ½ percentage point of GDP. The structural balance (i.e. the cyclically-adjusted-balance net of one-offs and other temporary measures) improved by 2¼ percentage points of GDP, in line with the Council Decision.

Overall, the 2006 deficit is 3½ percentage points of GDP lower than in 2003, the year that was the basis for opening the EDP, and 5¼ percentage points of GDP lower than in 2004, the year in which the deficit reached a peak of 7.9% of GDP. The corresponding improvements in the primary balance were 2¾ and almost 4½ percentage points of GDP respectively. In spite of the fiscal adjustment over this period, real GDP growth was robust. Measured by the estimated change in the structural balance, the improvement in the government balance implied a fiscal effort of 4½ percentage points of GDP between 2004 and 2006. Excluding the impact of the declining interest burden, the fiscal effort falls to 3¾ percentage points of GDP. These figures are well above the adjustment recommended in the Council Decision under Article 104(9), which is warranted in view of the upward revision of the deficit series since the Council decision was adopted.

Deficit ratios are usually revised – upwards or downwards – after the publication of the first outcome in the spring notification. For the EU Member States as a whole, revisions are normal, usually relatively small and on average insignificantly different from zero. In the case of Greece, the sizeable revisions in government accounts since 2004 (see box), which were made following reservations expressed by Eurostat on data reported, were the outcome of measures taken to improve the collection and processing of government finance statistics, as required by the Council Recommendation of 5 July 2004 and the Decision of 17 February 2005. Those measures led Eurostat to validate the Greek government deficit and debt figures reported in October 2006 and April 2007. Although one cannot exclude future revisions in the Greek government deficit, given the distance between the currently reported deficit and the deficit reference value, there is a relatively low probability that any future revision of government accounts raises the 2006 deficit ratio in excess of 3% of GDP. Such a probability will be even lower, in case the revised GDP series reported by Greece in October 2006 and April 2007 are validated by Eurostat later in the year.

3. DEFICIT PROJECTIONS FOR 2007 AND BEYOND

According to the Commission services' spring 2007 forecast, the general government deficit for 2007 is projected to be 2.4% of GDP[14] with real GDP growing at 3¾%. This includes additional expenditure-saving measures of a permanent nature amounting to about ¼% of GDP as well as additional one-off revenues of the same amount, both as announced by the

[14] In September 2006 the Greek authorities notified a 26% upward revision of nominal GDP figures. This revision could mean that the denominator effect of a higher GDP could reduce the deficit just below 2%. However, according to preliminary estimates, the concomitant revision of the gross national income could lead to a permanent increase of Greece's contribution to the EU budget of less than ¼% of GDP, as well as to a one-off payment of arrears on such a contribution of about ¾% of GDP, which could accrue to the 2007 balance. This could result in a deficit close to, but below, 3% of GDP. However, it should be underlined that these estimates are based solely on Greece's notification. In October 2006 the GNI committee suspended its opinion on the revised figures submitted by Greece and will give its opinion later in 2007 once Eurostat's thorough analysis of the Greek data has been completed. Only after that can the Commission determine the retained level of GDP and the actual consequences with regard to Greece's contribution to the EU budget.

Minister of Finance by the cut-off date of the Commission services spring 2007 forecast[15]. According to the December 2006 update of the stability programme of Greece, the official deficit objective for 2007 was also 2.4% of GDP. However, this official deficit did not include the above mentioned measures. In total, one-off revenues included in the spring forecast for 2007 amount to about ½% of GDP, compared to none in the stability programme. Without one-offs, the 2007 deficit according to the spring forecast would still be below the reference value, at 2.9% of GDP. In 2008, using a no-policy change scenario, the deficit would slightly increase to 2¾% of GDP, but without any further recourse to one-offs. The deficit projections point to a credible and sustainable correction of the excessive deficit.

In spite of the additional permanent and one-off measures announced in April, the spring forecast deficit projection for 2007 is identical to, rather than better than, the stability programme target. In particular, the impact of these new measures is projected to be offset by (i) more cautious growth assumptions in the spring forecast and (ii) the fact that the permanent measures in the stability programme are, in the view of the Commission, insufficient to fully compensate for the decline in one-off revenues from 0.6% of GDP in 2006 to (excluding the ones announced in April) ½% in 2007.

The main measures foreseen in the 2007 budget are, on the revenue side, a reform in personal income taxation and a further rise in excise taxes on fuel in 2007, while the authorities remain committed to intensify their fight against tax evasion. On the expenditure side, the annual growth of primary expenditures is projected to fall short of that of nominal GDP and, along with a further reduction in interest costs, should lead to a decline in total expenditures as a percentage of GDP. The reduction will be facilitated by slower growth in the total public wage bill (approx. 25% of total primary expenditure), which according to the budget will not exceed 6%, as well as significant cutbacks in intermediate government expenditure (mainly administrative cost and procurement).

The deficit projection for 2007 would represent a reduction in nominal terms of ¼ percentage point of GDP compared to 2006. This adjustment is expected to be almost fully attributed to the permanent measures announced by the cut-off date of the Commission services spring 2007 forecast. Total revenues are projected to decline by less than ¼ percentage point; higher indirect taxes would only partly compensate for reductions in revenues from takeovers of pension funds, and to a lesser extent, in direct tax revenues, which reflect the implemented personal income tax cuts. Total expenditures are projected to decrease by ½ percentage point of GDP, mainly driven by lower interest expenditure, public consumption and gross fixed capital formation. The structural improvement would be of around ¼% of GDP, and situate the structural deficit at around 3¾% in 2007.

According to the Commission services' spring 2007 forecast, the pace of adjustment in 2007 is below the 0.5% of GDP minimum improvement in structural terms specified in the Council decision under Article 104(9) for the period beyond the correction and not in line with the Stability and Growth Pact. In its opinion on the December 2006 update of the stability programme[16], the Council noted that the programme did not envisage to achieve the medium-term objective (MTO) for the budgetary position (for Greece, a balanced position in structural

[15] These measures were ratified in the EDP report of 30 April 2007 submitted by Greece in compliance with the Council Recommendation under Article 104(9).

[16] OJ C 70, 27.3.2007, p. 9.

terms) within the programme period (ending in 2009)[17]. It added that, in the years following the correction of the excessive deficit, the pace of the adjustment towards the MTO implied by the programme should be strengthened, especially after 2007, to be in line with the Stability and Growth Pact.

4. DEBT DEVELOPMENTS AND PROJECTIONS

In the period 2003-2006, developments in the gross debt ratio have not fully reflected the developments in the general government balance and the overall performance of the economy. In a context of strong nominal GDP growth (of more than 7½% per year on average, thus outpacing the EU average for a number of years), of falling interest expenditure and improving primary balances, the debt ratio has been reduced by only 3¾ percentage points between 2003 and 2006.

Nominal GDP growth was the main driver of the debt reduction, which more than compensated the debt-increasing effect of interest expenditure. The combined effect of nominal GDP growth and interest expenditure ("snow-ball" effect) contributed to reduction in the debt by 8¾ percentage points of GDP. The primary balance contributed to an increase in the debt until 2005 (by 3 percentage points of GDP), while in 2006 and for the first time since 2003, it turned to a surplus that contributed to reduce the debt ratio by around 2 points.

However, significant debt-increasing stock-flow adjustments (SFA) of around 4¼ percentage points in total between 2004 and 2006 hampered a faster pace of debt reduction, in spite of privatisation proceeds amounting to 1½% of GDP. Anyhow, the SFA in the last number of years has been much smaller than a few years ago. Moreover, there is now much more detailed information on each component of the SFA and smaller statistical discrepancies which contribute to increase the robustness of the reported data. In 2004, the debt-increasing stock-flow adjustment of 1% of GDP was mainly due to the accumulation of central government's deposits in banks; in 2005 the debt issuance in excess of the deficit was mainly in relation to the settlement of healthcare expenditure in arrears. In 2006, the SFA of 2.3% of GDP stems notably from a further accumulation of deposits with banks (0.6% of GDP), the fact that a large part of revenue in relation to the above mentioned transfer of pension commitments to social security has not yet been cashed in (0.5% of GDP)[18], pending payments by the EU budget (0.6% of GDP), payments in relation to the purchase of military equipment that will add to the deficit upon delivery (0.4% of GDP), sales of equity (-1.4% of GDP), statistical discrepancies (0.6% of GDP), as well as a number of other minor variables[19].

The December 2006 update of the stability programme of Greece targets a progressive and significant acceleration in the reduction of the debt-to-GDP ratio starting from 2006, by 12¾ percentage points until 2009. The combined effect of increasing primary surpluses (by 7¼

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17 The Greek Minister of Finance publicly announced on 24 April that the Greek government had decided to shift the deadline to achieve a MTO of a budget in balance or in surplus from 2012 to 2010, thus two years earlier than planned in the December 2006 Update of the Greek Stability and Growth Program. This engagement was ratified in the in the EDP report of 30 April 2007 submitted by Greece in compliance with the Council Recommendation under Article 104(9).

18 This amount is to be paid in ten annual instalments.

19 See Eurostat note on "Stock-flow adjustment (SFA) for the Member States, the euro area and the EU-27 for the period 2003-2006, as reported in the April 2007 EDP notification", available at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/STOCK_FLOW_2007/EN/STOCK_FLOW_2007-EN.PDF.

percentage points) and a debt-reducing "snow-ball" effect (of a similar amount, thanks to strong nominal GDP growth), would be the main driving forces. The update also projects a significant reduction of debt-increasing stock-flow adjustments, which would amount to 1¾ percentage points of GDP for 2007-2009. In its opinion on the programme, the Council noted that the evolution of the debt ratio after 2007 might be less favourable than projected in the programme given the favourable growth projections and the risks to the deficit targets. It added that the debt ratio nevertheless seemed to be sufficiently diminishing towards the reference value over the programme period.

According to the Commission services' spring 2007 forecast, the pace of debt reduction would be slightly slower than in the stability programme, to reach around 97½% in 2008, on a no-policy change scenario. In view of these debt trends, the debt ratio seems to be sufficiently diminishing towards the reference value.

5. CONSIDERATIONS ON THE STATISTICAL ROBUSTNESS OF GREEK DATA

According to the Council Recommendation of 5 July 2004 and Decision of 17 February 2005, Greece should “improve the collection and processing of general government data”.

The National Statistical Service of Greece (NSSG) took a number of measures to improve the quality of the deficit and debt data reported to the Commission. This included notably a new survey to collect data from social security, local government and central government bodies other than the State with a quarterly frequency in a timely manner; the previous survey was annual and results were often available after two to three years. Moreover results from the financial part of that survey were systematically compared with available data on banking statistics collected by the Bank of Greece. The NSSG also made a more detailed analysis of capital injections into public enterprises to correctly book them in the deficit or as financial transactions, in line with the Eurostat criteria. The recording of healthcare expenditure was shifted to accruals, rather than cash as previously. Military expenditure, transfers from the EU budget, taxes and intra-government transfers were also areas for which the NSSG changed its recording procedure in line with Eurostat suggestions. Moreover, several other technical recommendations by Eurostat - listed in the report of the methodological visits - were put in place by the Greek statistical authorities. These improvements led to a significant reduction in statistical discrepancies for years 2002-2005. As a result, on 23 October 2006, Eurostat withdrew its reservation on the quality of government deficit and debt figures reported by Greece and validated those figures. This validation was confirmed in April 2007. Although unexplained discrepancies still remain, they are considerably lower than in the past.

Box: Revisions of the Greek fiscal accounts since 2004

In September 2004, two months after the Council had decided that an excessive deficit existed in Greece, the Greek authorities presented in a new notification revised data which indicated that the government deficit had been in excess of 3% of GDP since 2000. In particular, the 2000-2003 deficits were revised upwards by more than two percentage points of GDP each year (see table). The debt figures were also revised upwards by more than 7 percentage points of GDP. The figures planned for 2004 implied an upwards revision of the deficit and debt figures by 2.3% and 14% of GDP respectively[20].

This data revision was carried out on the basis of new information provided by the Greek authorities, at the request of Eurostat, for the period 2000-2003, and rested on a more faithful application of the ESA95 accounting framework. After scrutinising the reported data, Eurostat validated the new 2000-2003 figures on 23 September 2004[21].

The notification of March 2005 further revised the data, especially the deficits for 2002-2003. The main reasons were (i) the fact that the healthcare expenditure pending of payment had not been properly booked when expenditure was incurred and (ii) the downward revisions of the social security surpluses by 0.1% in 2002 and 0.2% in 2003. The debt figures for the years 2002 and 2003 were also slightly revised downwards, mainly due to the reclassification of a mutual fund in the social security sector. Eurostat did not validate the data reported in March 2005, September 2005 and April 2006, in spite of successive revisions of reported deficit and debt data[22].

From 29 May to 2 June and 27 to 29 September 2006, Eurostat carried out a methodological visit[23] to Greece. The visit led to an agreement between Eurostat and the Greek authorities, clarifying the pending issues mentioned in the Eurostat News Releases of 26 September 2005 and 24 April 2006, concerning the recording of transactions with the EU budget, the accounts of social security and the amounts of other receivables and payables for the years 2002-2005. On 29 September 2006, Eurostat agreed with the Greek authorities a reduction of surpluses of other central government bodies and social security funds (corrections for transfers received from the ordinary budget in 2002-2005, and change in data sources in 2005). The revisions amounted to ¾ percentage points of GDP in 2004 and 2005. In particular, the downward revision of social security surpluses represented around ¼% of GDP per year. As a result, deficit and debt data were further revised; Eurostat withdrew its reservations on the Greek government deficit and debt and validated the reported data[24].

The notification of April 2007 further revised upwards the deficit in 2004 and especially 2005. The increase in 2004 was mainly due to new information on the time of recording of transfers with the EU budget in part compensated by an upward revision in tax receivables. The increase in 2005 was mainly due to a reduction of the surpluses of other central government bodies.

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20 See also European Commission, Public Finances in EMU – 2005, European Economy No 3, in particular Box I.1 thereof.

21 Eurostat News Release No 117/2004.

22 Eurostat News Releases No 39/2005, 120/2005 and 48/2006.

23 Methodological visits were established by Articles 8d and 8e of Council Regulation (EC) No 3605/93. These visits "are designed to monitor the processes and the government accounts which justify the reported actual data and to draw detailed conclusions as to the quality of reported data"; they take place "in cases where substantial risks or potential problems with the quality of the data are identified, especially as they relate to the methods, concepts and classification applied to the data, which Member States are obliged to report". The report of the methodological visit is available at http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2373,47631456&_dad=portal&_schema=portal.

24 Eurostat News Release No 139/2006.

Table 2: The revision of Greek data between the figures reported in EDP March 2004 and April 2007

% of GDP	2000	2001	2002	2003	2004	2005	2006
General Government Deficit							
2004 March	-2.0	-1.4	-1.4	-1.7			
2004 September	-4.1	-3.7	-3.7	-4.6			
2005 March		-3.6	-4.1	-5.2	-6.1		
2005 September		-6.1	-4.9	-5.7	-6.6		
2006 April			-4.9	-5.8	-6.9	-4.5	
2006 October			-5.2	-6.1	-7.8	-5.2	
2007 April				-6.2	-7.9	-5.5	-2.6
General Government gross debt							
2004 March	106.1	106.6	104.6	102.6			
2004 September	114.0	114.7	112.5	109.9			
2005 March		114.8	112.2	109.3	110.5		
2005 September		114.4	111.6	108.8	109.3		
2006 April			110.7	107.8	108.5	107.5	
2006 October			110.7	107.8	108.5	107.5	
2007 April				107.8	108.5	107.5	104.6

6. CONCLUSIONS

The general government deficit decreased from a peak of 7.9% of GDP in 2004 to 2.6% in 2006, below the 3% of GDP reference value. The measures underlying the deficit reduction over this period are mainly of a permanent nature, although there was recourse to one-offs in 2006 amounting to 0.6% of GDP. The structural balance, i.e. the cyclically-adjusted balance net of one-off and other temporary measures, improved by 4½% of GDP in 2006 compared to 2004, more than recommended by the Council, which is warranted in view of the upward revision of the Greek deficit series since the Council adopted its recommendations. According to the Commission services' spring 2007 forecast, the headline deficit is expected to narrow to 2.4% of GDP in 2007 (still including one-off measures of 0.5% of GDP, without which the deficit would nonetheless still be below 3%) and, on a no-policy change basis, slightly increase to 2.7% of GDP in 2008, but without recourse to one-off measures and entailing a further marginal improvement in the structural balance. This indicates that the deficit has been brought below the 3% of GDP ceiling in a credible and sustainable manner.

General government gross debt declined from 108½% of GDP in 2004 to 104½% in 2006 and, according to the Commission services' spring 2007 forecast, is expected to fall further to around 97½% of GDP by 2008 (on a no-policy change basis). The debt ratio can be considered as sufficiently diminishing towards the 60% of GDP reference value.

The Greek statistical authorities improved their procedures, which led to a significant reduction in the statistical discrepancies and an overall higher quality of the data. As a result, Eurostat withdrew its reservations on the quality of the actual reported data.

From an overall assessment, it follows that the excessive deficit situation in Greece has been corrected. Accordingly, the Commission recommends to the Council to abrogate its decision on the existence of an excessive deficit in Greece.

Table 3: Budgetary developments, 2003-2008

	2003	2004	2005	2006	2007		2008	
% of GDP, unless indicated otherwise					**COM**	**SP**(2)	**COM**(3)	**SP**(2)
General government balance	-6.2	-7.9	-5.5	-2.6	-2.4	-2.4	-2.7	-1.8
- Total revenues	43.0	42.1	41.6	43.2	43.0	43.2	42.5	43.6
- Total expenditure	49.5	49.8	47.3	46.1	45.5	45.6	45.3	45.4
Of which : - interest expenditure	*5.5*	*5.5*	*4.9*	*4.6*	*4.4*	*4.4*	*4.2*	*4.2*
- gross fixed capital formation	*4.0*	*4.2*	*3.5*	*3.6*	*3.5*	*3.5*	*3.5*	*3.5*
Primary balance	-0.7	-2.4	-0.6	2.0	2.0	2.0	1.5	*2.4*
One-off and temporary measures	0.0	0.0	0.0	0.6	0.5	0.0	0.0	*0.0*
Structural balance(1)	-6.5	-8.5	-6.1	-3.9	-3.6	-2.8	-3.5	-2.3
Structural primary balance(1)	-1.0	-3.0	-1.2	0.7	0.8	1.6	0.7	1.9
Government gross debt(4)	107.8	108.5	107.5	104.6	100.9	100.1	97.6	95.9
Change in debt ratio (a) = (b) + (c) + (d)	-2.9	0.7	-1	-2.9	-3.7	-4.0	-3.3	-4.2
Contributions: - primary balance (b)	*0.7*	*2.4*	*0.6*	*-2.0*	*-2.0*	*-2.0*	*-1.5*	*-2.4*
- "snow-ball" effect (c)	*-3.1*	*-2.8*	*-2.7*	*-3.2*	*-2.4*	*-*	*-2.6*	*-*
- stock-flow adjustment (d)	*-0.5*	*1.0*	*1.1*	*2.3*	*0.7*	*0.6*	*0.7*	*0.6*
Pm Real GDP growth (%)	*4.8*	*4.7*	*3.7*	*4.3*	*3.7*	*3.9*	*3.7*	*4.0*
Pm Output gap	*0.6*	*1.5*	*1.4*	*1.7*	*1.5*	*0.9*	*1.6*	*1.1*

(1) Cyclically-adjusted balance excluding one-off and temporary measures.

(2) Cyclically-adjusted and structural balances and output gaps according to the programme as calculated by Commission services on the basis of the information in the programme. For 2007, the programme did not include one-off measures amounting to ¼ percentage points of GDP and permanent measures also amounting to ¼ percentage points of GDP announced in April 2007. Total revenues and total expenditures have been adjusted according to the ESA95 harmonized definitions.

(3) No-policy change assumption.

(4) 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.

Sources: Commission services' spring 2007 forecast (COM) and December 2006 update of the stability programme.

Recommendation for a

COUNCIL DECISION

abrogating Decision 2004/917/EC on the existence of an excessive deficit in Greece

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) By Council Decision 2004/917/EC[25], following a recommendation from the Commission in accordance with Article 104(6) of the Treaty, it was decided that an excessive deficit existed in Greece. The Council noted that the general government deficit was 3.2% of GDP in 2003, above the 3% of GDP Treaty reference value, while general government gross debt stood at 103% of GDP, well above the 60 % of GDP Treaty reference value[26].

(2) On 6 July 2004, in accordance with Article 104(7) of the Treaty 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[27], the Council made, based on a recommendation from the Commission, a recommendation addressed to Greece with a view to bringing the excessive deficit situation to an end by 2005 at the latest. The recommendation was made public.

(3) On 19 January 2005, in accordance with Article 104(8), the Council decided, based on a recommendation from the Commission, that Greece has not taken effective action in response to the Council Recommendation under Article 104(7)[28]. On 17 February 2005, the Council decided[29], based on a recommendation from the Commission, to give notice to Greece in accordance with Article 104(9) to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit and extended the deadline for the correction by one year, to 2006.

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[25] OJ L 389, 30.12.2004, p. 25.

[26] Figures on general government deficit and general government gross debt for 2003 were revised on several occasions. According to the most recent data, the deficit and debt represented 6.2% of GDP and 107.8% of GDP respectively.

[27] 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).

[28] OJ L 107, 28.4.2005, p. 24.

[29] OJ L 153, 16.6.2005, p. 29.

(4) In accordance with Article 104(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(5) In accordance with the Protocol on the excessive deficit procedure annexed to the Treaty, the Commission provides the data for the implementation of the procedure. As part of the application of this Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 4 of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community[30].

(6) Based on data provided by the Commission (Eurostat) in accordance with Article 8g(1) of Regulation (EC) No 3605/93 following the notification by Greece on 1 April 2007 and on the Commission services' spring 2007 forecast, the following conclusions are warranted:

– the general government deficit was reduced from 7.9% of GDP[31] in 2004 to 2.6% of GDP in 2006, which is below the 3% of GDP deficit reference value. This is identical to the target set in the December 2005 update of the stability programme;

– revenues and expenditure contributed to the nominal adjustment of almost 3 percentage points of GDP compared to the 2005 deficit of 5½% in almost equal shares. Expressed in terms of the GDP, total revenues increased by 1½ percentage points of GDP, with indirect taxes accounting for ½ percentage point of GDP. The remaining 1 percentage point is accounted by increases in social contributions and other revenues, including capital transfers (EU transfers). Total expenditure was reduced by 1¼ percentage points of GDP, mainly driven by reductions in primary expenditure (by ½% of GDP) and in interest expenditure (¼% of GDP). Capital expenditures were also reduced by around ½ percentage point of GDP. One-off revenues amounted to 0.6% of GDP. The improvement in the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) is estimated at 2¼% of GDP in 2006;

– for 2007, the Commission services' spring 2007 forecast projects the deficit to be reduced further, to 2.4% of GDP. This is in line with the official deficit target of 2.4% of GDP set in the December 2006 update of the stability programme. However, the Commission services' forecast includes additional one-off revenues amounting ¼% of GDP, as well as permanent expenditure-saving measures amounting to about ¼% of GDP, both as announced by the cut-off date of the Commission services spring 2007 forecast and thus not reflected in the December 2006 official target. In spite of this, the spring forecast deficit projection for 2007 is not better than the target as the impact of

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30 OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

31 GDP in this decision refers to the unrevised GDP series and not to the "revised" GDP data reported by the Greek authorities in October 2006 and April 2007.

these new measures is offset by (i) more cautious growth assumptions and (ii) the fact that the permanent measures planned for 2007 would not, in the view of the Commission, fully replace the decline in one-off revenues. Without one-offs, the deficit would still be below the reference value, at 2.9% of GDP. For 2008, the spring forecast projects, on a no-policy change basis, a deficit of 2.7% of GDP (no one-offs are included for 2008). This indicates that the deficit has been brought below the 3% of GDP ceiling in a credible and sustainable manner. The structural balance is projected to improve in 2007 by around ¼ of a percentage point of GDP and, on a no-policy change basis, by a marginal amount in 2008. This has to be seen against the need to make progress towards the medium-term objective (MTO) for the budgetary position, which for Greece is a balanced position in structural terms;

– government debt declined from 108½% of GDP in 2004 to 104½% in 2006. According to the spring 2007 forecast, the debt ratio is projected to fall further to around 97½% by end-2008, still well above the 60% of GDP reference value. The debt ratio can be considered as sufficiently diminishing towards the 60% of GDP reference value.

(7) The Greek statistical authorities improved their procedures, which led to a significant reduction in the statistical discrepancies and an overall higher quality of the data. As a result, Eurostat withdrew its reservations on the quality of the actual reported data.

(8) In the view of the Council, the excessive deficit in Greece has been corrected and Decision 2004/917/EC should therefore be abrogated.

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Greece has been corrected.

Article 2

Decision 2004/917/EC is hereby abrogated.

Article 3

This Decision is addressed to the Hellenic Republic.

Done at Brussels,

For the Council
The President