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(Information)

COUNCIL

COUNCIL OPINION

of 12 April 2005

on the updated stability programme of Greece, 2004-2007

(2005/C 189/01)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

(1) On 12 April 2005 the Council examined the updated stability programme of Greece, which covers the period 2004 to 2007. The programme broadly complies with the data requirements of the 'code of conduct on the content and format of stability and convergence programmes'. Price developments are presented in terms of the deflator of private consumption expenditure and not in terms of Harmonised Index of Consumer Prices. As regards the basic external assumptions the programme does not provide data on world GDP growth excluding EU nor the growth rate of relevant foreign markets as required by the code of conduct. The programme does not provide detail of the measures behind the targets for 2007. Accordingly Greece is invited to achieve full compliance with the data requirements.

(2) The programme considers three different macroeconomic scenarios. On the basis of the latest available information, incorporated in the Commission services spring forecast, the third scenario, and not the baseline one, is taken as the reference for assessing the programme because it seems to reflect plausible macroeconomic assumptions close to the Commission forecasts. In this reference scenario used for the assessment of the programme, real GDP is projected to grow at 2,9 % in 2005 and marginally accelerate to 3 % in 2006 and 2007. Potential output growth is expected to gradually ease over the programme period from around 3,3 % in 2005 to 3 % in 2007, while the sizeable positive output gap recorded in 2004 is set to narrow up until 2007.

(3) On 5 July 2004, the Council decided that Greece was in excessive deficit and recommended its correction by 2005 at the latest. On 18 January 2005, the Council decided that Greece had not taken effective action in response to these recommendations. On 17 February 2005, the Council decided in accordance to Article 104(9) to give notice to Greece to take measures for the deficit reduction below the 3 % of GDP threshold by 2006 at the latest. The Greek authorities were also required to identify and control factors other than net borrowing, which contribute to the change in debt levels, and to improve the collection and processing of general government data.

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

(4) According to the March 2005 EDP notification, the general government balance of 2004 is estimated to have recorded a deficit of 6,1 % of GDP. This deficit is 0,8 percentage points higher than the figure of 5,3 % of GDP estimated by the Greek government in autumn 2004 at the time of the September 2004 EDP notification, reflecting tax shortfalls and expenditure overruns worth half a point of GDP. On 18 March 2005 Eurostat decided not to validate the deficit figures for Greece, noting that due to some outstanding issues the government deficit figures for 2004 and earlier years may have to be revised upwards.

(5) The budgetary strategy of the Greek government aims at reducing the deficit below the 3 % of GDP reference value by 2006, in line with the Council decision under Article 104(9), through a mix of expenditure retrenchment and also revenue-enhancing measures, which should result in increasing primary surpluses. To that end, the Greek government has adopted a package of fiscal measures for 2005, in addition to those included in the 2005 budget, which are of permanent nature. The reference scenario targets a sizeable reduction of the nominal general government budget deficit by 3.6 percentage point over the programme period, from the outturn of 6,1 % of GDP in 2004 to 2,4 % in 2007. The primary balance is projected to improve substantially from a deficit of 0,4 % in 2004 to a surplus of 1,8 % of GDP in 2005 increasing to 3,3 % of GDP at the end of the period.

(6) There is a risk that the budgetary outcome for 2005 and beyond may be worse than in the programme. In particular, trends in social security contributions and public consumption expenditure may have been projected favourably, while the envisaged adjustment measures, especially in the outer years of the programme, are not sufficiently indicated. Moreover, the new statistical revisions for 2004 and earlier years may imply potential carryover effects requiring additional measures for the future. The Greek authorities have announced that they stand ready to implement additional saving measures on the expenditure side in the 2006 budget, on top of the measures already adopted in 2005, in order to effectively bring the deficit below the 3 % reference value in 2006 as required by the Council. The budgetary stance in the programme does not provide a sufficient safety margin against breaching this threshold with normal cyclical fluctuations nor does it achieve the Stability and Growth Pact's medium term objective of a budgetary position of close-to-balance or in surplus throughout the programme period.

(7) The debt ratio is projected to decline from 110,5 % of GDP in 2004 to only 109,5 % in 2005 and then to 107,2 % in 2006 and 104,7 % in 2007. A faster pace of debt reduction is hampered by significant debt-increasing stock-flow adjustments, which, while declining compared to 2004, are expected to remain significant in spite of planned privatisation proceeds. The evolution of the debt ratio may be less favourable than projected given the risks to the budgetary targets mentioned above.

(8) Greece appears to be at serious risk with regard to the long-term sustainability of public finances, also on account of the very important projected budgetary costs of an ageing population. The considerable increase projected in age-related spending suggests that additional measures to control public pension expenditures, including the resolute implementation of reform measures enacted, are necessary.

(9) The economic policies outlined in the update are partly consistent with the country-specific Broad Economic Policy Guidelines in the area of public finances. In particular, the programme does not outline sufficiently effective action towards the close-to-balance-or-in-surplus position. The cyclically-adjusted deficit calculated by the Commission services according to the commonly agreed methodology applied to the data of the reference scenario, although projected in the programme to improve by 0,5 per cent of GDP per year, would remain above 3 % of GDP throughout the programme period. However, the steps taken towards correcting fiscal imbalances and the government commitment made public on 29 March are in line with the Council recommendations in its notice given to Greece on 17 February in accordance with Article 104(9). Therefore, no further steps in the excessive deficit procedure are needed at present. A new assessment of compliance with such recommendations will be carried out on the basis of the report to be presented by the Greek authorities in October, as foreseen in the Council notice.

In view of the above assessment, the Council is of the opinion that Greece should:

— implement the necessary permanent measures in order to correct the excessive deficit by 2006 at the latest;

— reduce the cyclically-adjusted deficit by at least 0,5 % of GDP from 2007 onward, mainly through primary spending control measures, leading to a close-to-balance-or-in-surplus position in the medium term;

— enhance the efforts to identify and control factors other than net borrowing, which contribute to the change in debt levels, in order to ensure a reduction in the government gross debt ratio so as to approach the reference value at a faster pace;

— control public pension expenditures and resolutely implement the enacted reforms to ensure the sustainability of public finances;

— further actively improve the collection and processing of general government data in collaboration with Eurostat, notably by enhancing the mechanisms that ensure a prompt and correct supply of this data.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007
Real GDP (% change)	**SP Mar 2005**	**4,2**	**2,9**	**3,0**	**3,0**
	COM Mar 2005	4,2	2,9	3,1	
	SP Dec 2003	4,2	4,0	3,8	n.a.
HICP inflation (%)	**SP Mar 2005**	**3,0**	n.a	n.a	n.a
	COM Mar 2005	3,0	3,2	3,2	
	SP Dec 2003	3,0	2,8	2,6	n.a.
General government balance (% of GDP) (*)	**SP Mar 2005**	**– 6,1**	**– 3,7**	**– 2,9**	**– 2,4**
	COM Mar 2005	– 6,1	– 4,5	– 4,4	
	SP Dec 2003	– 1,2	– 0,5	0,0	n.a.
Primary balance (% of GDP) (*)	**SP Mar 2005**	**– 0,4**	**1,8**	**2,7**	**3,3**
	COM Mar 2005	– 0,4	1,0	1,0	
	SP Dec 2003	4,7	5,1	5,3	n.a.
Cyclically-adjusted balance (% of GDP) (*)	**SP Mar 2005** (1)	**– 7,0**	**– 4,4**	**– 3,5**	**– 3,0**
	COM Mar 2005	– 7,1	– 5,5	– 5,3	
	SP Dec 2003	– 1,2	– 0,5	0,0	n.a.
Government gross debt (% of GDP)	**SP Mar 2005**	**110,5**	**109,5**	**107,2**	**104,7**
	COM Mar 2005	110,5	110,5	108,9	
	SP Dec 2003	98,5	94,6	90,5	n.a.

Note:

(1) Commission services calculations on the basis of the information in the programme

(*) The Commission projections do not take into account the measures announced on 29 March

Sources:

Stability programme March 2005 revised update (SP); Commission services spring 2005 economic forecasts (COM); Commission services calculations