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Recommendation for a

COUNCIL DECISION

of 4.5.2010

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

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the recommendation from the Commission,

Whereas:

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

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

(3) On 27 April 2009, the Council decided, in accordance with Article 104(6) (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. The Council also set a deadline of 27 October 2009 for effective action to be taken. On 30 November 2009, the Council established in accordance with of Article 126 (8) TFEU that Greece had not taken effective action; consequently, on 16 February 2010, the Council gave notice to Greece in accordance with Article 126(9) TFEU to take measures to correct the excessive deficit by 2012 at the latest The Council also set a deadline of 15 May 2010 for effective action to be taken.

(4) According to Article 5(2) of Council Regulation (EC) No 1467/97, if effective action has been taken in compliance with Article 126(9) TFEU and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that notice, the Council may decide, on a recommendation from the Commission, to adopt a revised notice under Article 126(9) TFEU.

(5) According to the Commission services autumn 2009 forecasts, which provided the basis for the initial notice addressed to Greece, GDP was expected to contract by ¼% in 2010, and recover from 2011, when the economy was forecast to grow by 0.7%. A sharp fall in real GDP is now expected for 2010, followed by a further contraction in 2011. A gradual resumption of growth is expected thereafter. This marked worsening of the economic scenario implies a corresponding deterioration of the outlook for public finances at unchanged policy. To this should be added the upward revision of the government deficit outcome for 2009 (from an estimated 12.7% of GDP at the time of the decision under Art. 126(9) to 13.6% of GDP according to the fiscal notification submitted by Greece on 1 April 2010), with the risk of a further upward revision (of the order of 0.3 to 0.5 % of GDP) following completion of the investigations that Eurostat is undertaking with the Greek Statistical Authorities[1]. Last, concerns in the markets for the public finances outlook have been reflected in a sharp rise in risk premia on government debt, compounding the difficulties in controlling the path of government deficit and debt. According to the preliminary assessment carried out by the Commission in March 2010, Greece was implementing as requested the fiscal measures meant to ensure the achievement of the planned deficit target for 2010. However, the abrupt change in the economic scenario means that those plans can no longer be considered valid. The immediate threat to government solvency requires even more drastic action in course of the current year. At the same time, the depth of the contraction in the economy that can now be expected makes the achievement of the initial deficit reduction path unfeasible. Unexpected adverse economic events with major unfavourable consequences for government finances can be considered to have occurred in Greece and revised recommendations under Article 136 and 126(9) TFEU are therefore justified.

(6) In the light of the above considerations, it appears that the deadline which was set in the Council notice of 16 February 2010 for the correction of the excessive deficit in Greece needs to be extended by 2 years to 2014.

(7) Gross public debt at the end of 2009 stood at 115.1% of GDP. This is among the highest debt ratios in the EU, and is way above the 60%-of-GDP reference value of the Treaty. Moreover, the figure risks being further revised upwards (by 5 to 7 percentage points) as a result of the ongoing statistical investigation. Achieving the deficit reduction path that is considered necessary and feasible in the light of the circumstances would imply that the increase in debt would be reversed from 2014. On the top of persistently high government deficits, the contribution of 'below-the-line' operations to the increase in debt has been large. This has contributed to undermining markets' confidence in the ability of the government to service the debt going forward. There is an extremely urgent need for Greece to take decisive action, on an unprecedented scale, on the deficit and the other factors contributing to the increase in debt, in order to reverse the increase in the debt to GDP ratio and allow it to return as soon as possible to market financing.

(8) The very severe deterioration of the financial situation of the Government has led euro area Member States to decide to provide a stability support to Greece, with a view to safeguarding financial stability in the euro area as a whole, and in conjunction with a multilateral assistance provided by the International Monetary Fund. This support

1 Eurostat news release 55/2010. 22 April 2010.

takes the form of a pooling of bilateral loans, coordinated by the Commission. The lenders have decided to subordinate their support to the respect by Greece of the present decision. In particular, Greece is expected to carry out the measures specified in this decision according to the calendar set out therein.

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 2014.

2. The adjustment path towards the correction of the excessive deficit shall aim at a general government deficit not exceeding EUR 18508 mn (8.0% of GDP) in 2010, EUR 17065 mn (7.6% of GDP) in 2011, EUR 14916 mn (6.5% of GDP) in 2012, EUR 11399 mn (4.9 of GDP) in 2013, EUR 6385 mn (2.6 of GDP) in 2014. To this aim an improvement in the structural balance of at least 10% of GDP will have to be achieved over the period 2009-2014.

3. The adjustment path provided in paragraph 2 requires that the annual change in the general government consolidated gross debt shall not exceed EUR 34.058 mn 2010, EUR 17.365 mn in 2011, EUR 15.016 mn in 2012, EUR 11.599 mn in 2013, EUR 7.885 mn in 2014. Based on current GDP projections, the corresponding path for the debt-to-GDP ratio would be 133.2% in 2010, 145.2% in 2011, 148.8% in 2012, 149.6% in 2013 and 148.4% in 2014.

Article 2

1. Greece shall adopt the following measures before the end of June 2010:

   (a) A law introducing a progressive tax scale for all sources of income and a horizontally unified treatment of income generated by labour and capital assets;

   (b) A law abrogating all exemptions and autonomous taxation provisions in the tax system, including income from special allowances paid to civil servants;

   (c) The cancellation of the budgetary appropriations in the contingency reserve, with the aim of saving EUR 700 million;

   (d) An abolition of most of the budgetary appropriation for the solidarity allowance (except a part for poverty relief) with the aim of saving EUR 400 million;

   (e) A reduction of the highest pensions with the aim of saving EUR 500 million for a full year (EUR 350 million for 2010);

   (f) The reduction of the Easter, summer and Christmas bonuses and allowances paid to civil servants with the aim of saving EUR 1500 mn for a full year (EUR 1100 mn in 2010);

(g) The abolition of the Easter, summer and Christmas bonuses paid to pensioners, though protecting those receiving low pensions, with the aim of saving EUR 1900 mn for a full year (EUR 1500 mn in 2010);

(h) An increase in VAT rate, with a yield of at least EUR 1.8 bn for a full year (EUR 800 mn in 2010);

(i) An increase in excises for fuel, tobacco and alcohol, with a yield of at least EUR 1050 mn for a full year (EUR 450 mn in 2010);

(j) A legislation implementing the services directive[2];

(k) A law reforming and simplifying public administration at the local level with the aim of reducing operating costs;

(l) The establishment of a task force aiming at improving the absorption rate of structural and cohesion funds;

(m) A law to simplify the start-up of new businesses;

(n) A reduction of public investment by EUR 500 mn compared to plans;

(o) The channelling of the budgetary appropriations for the co-financing of structural and cohesion funds to a special central account that cannot be used for any other purpose.

2. Greece shall adopt the following measures by the end of September 2010:

(a) An inclusion in the draft budget for 2011 of fiscal consolidation measures amounting to at least 3.2 percent of GDP (4.3% of GDP if carryovers from measures implemented in 2010 are considered). The budget shall notably include the following measures (or in exceptional circumstances, measures yielding comparable savings): a reduction in intermediate consumption of the general government by at least EUR 300 mn compared to the 2010 level (on top of savings stemming from the reform of public administration and of local Government referred to in this paragraph), a freeze in the indexation of pensions (with the aim of savings EUR 100 mn), a temporary crisis levy on highly profitable firms (yielding at least EUR 600 mn in additional revenue per year in 2011, 2012 and 2013), a presumptive taxation of professionals (with a yield of at least EUR 400 mn in 2011 and increasing returns in 2012 and 2013), a broadening of the VAT base by including certain services currently exempted and by moving 30% of goods and services from the reduced rate to the main rate (with a yield of EUR 1 bn), a phased-in green tax on CO^2 emissions (with a yield of at least EUR 300 mn in 2011), the implementation by the Government of the legislation reforming the public administration and a reorganisation of local government (with the aim of reducing costs by at least EUR 500 mn in 2011, and 500 additional million in each year 2012 and 2013), a reduction in domestically-financed investments (by at least EUR 1 bn) by

2 Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market (OJ L 376, 27.12.2006).

giving priority to investment projects financed by EU structural funds, incentives to regularise land-use violations (yielding at least EUR 1500 mn from 2011 to 2013, of which at least EUR 500 mn in 2011), a collection of revenue from the licensing of gaming (at least EUR 500 mn in sales of licences and EUR 200 mn in royalties), an expansion of the base of the real estate tax by updating asset values (to yield at least EUR 500 mn additional revenue), an increased taxation of wages in kind, including by taxing car lease payments (by at least EUR 150 mn); an increased taxation of luxury goods (by at least EUR 100 mn), a special tax on unauthorised establishments (to yield at least EUR 800 mn per year), a replacement of only 20% of retiring employees in the public sector (central government, municipalities, public companies, local governments, state agencies and other public institutions);

(b) A law reforming the pension system with a view to ensuring its medium and long term sustainability. The law should notably introduce a unified statutory retirement age of 65 years (including for women), a merger of the existing pension funds in three funds and a unified new pension system for all current and future employees (applicable as of 1st January 2013), a reduction of the upper limit on pensions, a gradual increase in the minimum contributory period for retirement on a full benefit from 37 to 40 years (by 2015), a minimum retirement age of 60 years by 1st January 2011 (including for workers in heavy and arduous professions and those with 40 years of contributions), an abolition of the special rules for the persons insured before 1993 (while retaining acquired rights), a substantial narrowing of the list of heavy and arduous professions, a reduction of the pension benefits (by 6% per year) for people entering retirement between the ages of 60 and 65 with a contributory period of less than 40 years, the creation of an automatic adjustment mechanism linking the retirement age with the increase in life expectancy (as of 2020), the creation of a means-tested minimum guaranteed income for elderly people above the statutory requirement age, the introduction of stricter conditions and regular re-examination of eligibility for disability pensions, an amendment of the pension award formula in the contributory based scheme to strengthen the link between contributions paid and benefits received (with accrual rate limited to an average annual rate of 1.2%) and an extension of the calculation of the pensionable earnings to the entire lifetime earnings (while retaining acquired rights). The implementation of this law should reduce the projected increase in the pension expenditure to GDP ratio to below the euro area average over the next decades and shall limit the increase of public sector spending on pensions over the period 2010-2060 to less than 2.5% of GDP;

(c) A reinforcement of the role and resources of the general accounting office and the establishment of safeguards against possible political interferences in data projection and accounting;

(d) A draft reform of wage legislation in the public sector, including notably the creation of a Single Payment Authority for the payment of wages, the introduction of unified principles and timetable to establish a streamlined unified public sector wage grid to apply to the State sector, local authorities and other agencies;

(e) A legislation improving the efficiency of the tax administration and controls;

(f) The launch of an independent review of the public administration and of existing social programmes;

(g) The publication of monthly statistics (on a cash basis) on revenue, expenditure, financing and spending arrears for the available general government and its sub entities;

(h) An action plan to improve 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) 2223/96[3], 264/2000[4], 1221/2002[5], 501/2004[6], 1222/2004[7], 1161/2005[8], 223/2009[9] and 479/2009[10];

(i) A regular publication of information on the financial situation in public enterprises and other public entities not classified in the general government (including detailed income statements, balance sheets and data on employment and the wage bill);

3. Greece shall adopt the following measures by the end of December 2010:

(a) A final adoption of the measures mentioned in paragraphs (2) (a) and (d);

(b) A draft legislation strengthening the fiscal framework. This should notably include the establishment of a medium-term fiscal framework, the creation of a compulsory contingency reserve in the budget corresponding to 10 percent of total appropriations, the creation of stronger expenditure monitoring mechanisms and the establishment of an independent fiscal agency providing advice and expert scrutiny on fiscal issues;

(c) A law to reform the wage bargaining system in the private sector, which should provide for a reduction in pay rates for overtime work, enhanced flexibility in the management of working time and allow local territorial pacts to set wage growth below sectoral agreements;

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3 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*

4 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, 4/2/2000*

5 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 179/1 , 9/7/2002*

6 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 81/1 , 19/3/2004*

7 Council regulation (EC) No 1222/2004 of 28 June 2004 concerning the compilation and transmission of data on the quarterly government debt *OJ L 233/1 , 2/7/2004*

8 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, 22/7/2005*

9 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 87/164, 31/3/2009*

10 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 *OJ L 145/1, 10/6/2009*

(d) A law on minimum wages to introduce sub-minima for groups at risk such as the young and long term unemployed, and put measures in place to guarantee that current minimum wages remain fixed in nominal terms for three years;

(e) A reform of employment protection legislation to extend the probationary period for new jobs to one year, reduce the overall level of severance payments and ensure that the same severance payment conditions apply to blue and white collar workers, raise the minimum threshold for activation of rules on collective dismissals especially for larger companies, and facilitate the greater use of temporary contracts;

(f) A significant increase in the absorption rate of structural and cohesion funds;

(g) The introduction of a new system for the management of drugs favouring the use of generic medicines;

(h) The establishment of a unified public procurement system with a central procurement authority, ensuring notably robust tendering procedures, ex ante and ex post controls;

(i) A legislation simplifying and accelerating the process of licensing enterprises, industrial activities and professions;

(j) A modification of the institutional framework of the Hellenic competition authority (HCC) with a view to increasing its independence, establishing reasonable deadlines for the investigation and issuance of decisions and entrusting it with the power to reject complaints;

(k) A better management of public assets, with the aim to raise at least EUR 1 bn per year during the period 2011-2013 ;

(l) Measures aiming at removing existing restrictions to the freedom to provide services.

4. Greece shall adopt the following measures by the end of March 2011:

A final adoption of the measures mentioned in paragraph 3 (b);

5. Greece shall adopt the following measures by the end of June 2011:

(a) A streamlined unified public sector wage grid to apply to the State sector, local authorities and other agencies, with remunerations reflecting productivity and tasks;

(b) Measures implementing the findings of the external and independent functional review of public administrations;

(c) A reinforcement of the labour inspectorate, which shall be fully resourced with qualified staff and have quantitative targets on the number of controls to be executed.

6. Greece shall adopt the following measures by the end of September 2011:

(a) The inclusion in the draft budget for 2012 of fiscal consolidation measures amounting to at least 2.2 percent of GDP. The budget shall notably include the following measures (or in exceptional circumstances, measures yielding comparable savings): a further broadening of VAT base by moving goods and services from the reduced to the normal rate (with the aim of collecting at least additional EUR 300 mn), reduce public employment on top of the rule of 1 recruitment for each 5 retirements in the public sector (with the aim of saving at least EUR 600 mn), establish excise duties for non alcoholic beverages (for a total amount of at least EUR 300 mn), an expansion of the real estate tax through an updating of the asset values (for creating at least EUR 200 mn extra revenues), a re-organization of sub-central governments aiming at (generating at least EUR 500 mn in savings), a reduction in intermediate consumption of general government (by at least EUR 300mn compared to the 2011 level), a nominal freeze in pensions; an increase efficiency of the presumptive taxation of professionals (with the aim of collecting at least EUR 100 mn), a reduction of transfers to public enterprises (by at least EUR 800 mn) following their restructuring, make unemployment benefits means-tested (with the aim of savings EUR 500 mn), collect further revenues from the licensing of gaming (at least EUR 225 mn in sales of licence and EUR 400 mn in royalties);

(b) A mitigation of tax obstacles to mergers and acquisitions;

(c) A simplification of the custom clearing process for exports and imports;

(d) A further increase in the absorption rates of structural and cohesion funds;

(e) A full implementation of the better regulation agenda with a view to reducing administrative burden by 20% (compared with 2008).

7. Greece shall adopt the following measures by the end of December 2011:

(a) A final adoption of the measures mentioned in paragraph 6 (a);

(b) A reinforcement of the managerial capacity of all managing authorities and intermediate bodies of operational programmes under the framework of the national strategy reference framework 2007-2013 and their certification ISO 9001:2008 (quality management).

Article 3

Greece shall fully cooperate with the Commission and transmit without delay on a reasoned request from the latter any data or document needed for the monitoring of the respect of the present decision.

Article 4

1. Greece shall submit to the Council and the Commission a report outlining the policy measures taken to comply with this Decision on a quarterly basis.

2. The reports referred to in paragraph 1 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.

3. 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

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

Article 6

This Decision is addressed to the Hellenic Republic.

Done at Brussels, 4.5.2010

For the Council
The President