Ex-premier deplores 'malicious' revision of Greek deficit figures

Greece has lost its credibility says Costas Simitis, former Socialist prime minister

By Kerin Hope in Athens

The dispute over Greece's budget deficit deepened yesterday after Costas Simitis, the Socialist former prime minister, said the current government had acted "maliciously and thoughtlessly" by retroactively revising the deficit figures.

A European Union investigation revealed this week that Greece had broken the eurozone's critical deficit ceiling every year since 1998, contrary to its claim that it had stuck to the rules.

"Greece has lost its credibility with the international community," Mr Simitis said in a television interview on Tuesday. "Our leverage in the European Union has been reduced and the economic consequences will be especially harsh."

In another blow, Greece's long-term sovereign credit rating was cut by Standard & Poor's yesterday after recent indications that the budget deficit was widening dangerously. The rating was cut to A from A+.

Mr Simitis's attack on the centre-right government of Costas Karamanlis signalled an end to the consensus that prevailed while Greece focused on organising the Olympic Games. It also raised the possibility of a fresh election early next year. The Socialists could bring down Mr Karamanlis's government by blocking the election by parliament of a new head of state in March. The governing New Democracy party needs support from the opposition to reach the three-fifths majority required to install the president.

If an election were held, Greece would be unlikely to achieve its aim of cutting the 2005 budget deficit to 2.8 per cent from a projected 5.3 per cent of gross domestic product this year, and restoring its image in Brussels.

Given that Mr Simitis and his economic team made joining the euro a national project, suggestions that Greece falsified its deficit figure in 1999 – the benchmark year for entry – have triggered a strong reaction.

It is not only the reputation of leading Greek politicians that is at stake. Lucas Papademos, the vice-president of the European Central Bank, worked closely with the finance ministry in the run-up to eurozone entry as governor of the country's Greek central bank.

According to revised figures from Eurostat, the Commission's statistical arm, instead of the reported 1.8 per cent, Greece's budget deficit that year in 1999 reached 3.3 per cent of GDP and not the reported 1.8 per cent – exceeding the 3 per cent ceiling set by the Maastricht treaty for eurozone entry.

Eurostat re-examined Greece's national accounts in the run-up to euro membership after George Alogoskoufis, who took over as finance minister when New Democracy came to power in March, revealed that Greece had breached the 3 per cent ceiling every year since 2000.

Yannos Papantoniou, the former finance minister who oversaw Greece's preparations for joining the euro, denied yesterday that EU accounting rules had been breached. "We did nothing that was not the practice of other eurozone members."

Mr Papantoniou said Eurostat had retroactively applied regulations that required subsidies to loss-making state companies to be recorded in the budget deficit, although the new rules came into effect only in 2000. Greece had been in line with EU accounting rules, and other member states' practice, in delaying payment for military equipment until it was delivered.

Greece appears to have escaped the threat of being punished with the loss of up to €500m ($651m, £350m) in transfers from the EU's cohesion fund as a result of having produced misleading accounts.

But it could face being fined by the European Court for running an excessive deficit, while next year's budget performance will be closely monitored.

Mr Alogoskoufis said the Commission's lenient approach to Greece's deficit irregularities amounted to "a recognition that the revisions reflected uncertainties over the transition to the new accounting system".

He pledged that next year's budget, which calls for cuts in public investment and in public sector wage increases, would be implemented strictly.

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