DECISIONS

COUNCIL DECISION

of 10 May 2010

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

(2010/320/EU)

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 thereof,

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 are to 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) of the Treaty establishing the European Community (TEC), that an excessive deficit existed in Greece and issued recommendations to correct that 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 [1]. The Council also set a deadline of 27 October 2009 for Greece to take effective action. On 30 November 2009, the Council established, in accordance with 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 (hereinafter 'the Council Decision pursuant to Article 126(9)'). The Council also set a deadline of 15 May 2010 for effective action to be taken.

(4) According to Article 5(2) of 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 pursuant to 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 as 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 Council Decision pursuant to Article 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 [2]. Lastly, 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

[1] OJ L 209, 2.8.1997, p. 6.

[2] Eurostat news release 55/2010. 22 April 2010.

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, requiring even more drastic action in the 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 pursuant to Article 136 and Article 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 Decision pursuant to Article 126(9) for the correction of the excessive deficit in Greece needs to be extended by two 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 considerably higher than 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 investigations. 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. In addition to persistently high government deficits, the contribution of 'below-the-line' operations to the increase in debt has been large. This has contributed to undermining market confidence in the ability of the Greek Government to service the debt going forward. There is an extremely urgent need for Greece to take decisive action, on an unprecedented scale, on its deficit and on 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 Greek Government has led euro area Member States to decide to provide stability support to Greece, with a view to safeguarding the financial stability of the euro area as a whole, in conjunction with multilateral assistance provided by the International Monetary Fund. Support provided by the euro area Member States will take the form of a pooling of bilateral loans, coordinated by the Commission. The lenders have decided that their support shall be conditional on Greece respecting this Decision. In particular, Greece is expected to carry out the measures specified in this Decision in accordance with the calendar set out herein,

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 to achieve a general government deficit not exceeding EUR 18 508 million (8,0 % of GDP) in 2010, EUR 17 065 million (7,6 % of GDP) in 2011, EUR 14 916 million (6,5 % of GDP) in 2012, EUR 11 399 million (4,9 % of GDP) in 2013 and EUR 6 385 million (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 referred to in paragraph 2 requires that the annual change in the general government consolidated gross debt does not exceed EUR 34 058 million in 2010, EUR 17 365 million in 2011, EUR 15 016 million in 2012, EUR 11 599 million in 2013 and EUR 7 885 million 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 repealing 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) the 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) a reduction of the Easter, summer and Christmas bonuses and allowances paid to civil servants with the aim of saving EUR 1 500 million for a full year (EUR 1 100 million 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 1 900 million for a full year (EUR 1 500 million in 2010);

(h) an increase in the VAT rate, with a yield of at least EUR 1 800 million for a full year (EUR 800 million in 2010);

(i) an increase in excises for fuel, tobacco and alcohol, with a yield of at least EUR 1 050 million for a full year (EUR 450 million in 2010);

(j) legislation implementing the Services Directive [1];

(k) a law reforming and simplifying public administration at 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 million 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;

(p) the establishment of an independent financial stability fund to deal with potential capital shortfalls and preserve the soundness of the financial sector, by providing equity support to banks as needed;

(q) the reinforced supervision of banks, with increased human resources, more frequent reporting and quarterly stress tests.

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 % of GDP (4,1 % of GDP if carryovers from measures implemented in 2010 are considered). The budget shall, in particular, 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 million compared to the 2010 level (in addition to savings stemming from the reform, referred to in this paragraph, of public administration and of local government); a freeze in the indexation of pensions (with the aim of saving EUR 100 million); a temporary crisis levy on highly profitable firms (yielding at least EUR 600 million in additional revenue per year in 2011, 2012 and 2013); the presumptive taxation of professionals (with a yield of at least EUR 400 million in 2011 and increasing returns in 2012 and 2013); a broadening of the VAT base to include certain services currently exempted and moving 30 % of goods and services from the reduced rate to the main rate (with a yield of EUR 1 billion); a phased-in green tax on CO_2 emissions (with a yield of at least EUR 300 million in 2011); the implementation by the Greek Government of legislation reforming public administration and reorganising local government (with the aim of reducing costs by at least EUR 500 million in 2011, and 500 additional EUR million each year in 2012 and 2013); a reduction in domestically-financed investments (by at least EUR 1 billion) by giving priority to investment projects financed by EU structural funds; incentives to regularise land-use violations (yielding at least EUR 1 500 million from 2011 to 2013, of which at least EUR 500 million in 2011); a collection of revenue from the licensing of gaming (at least EUR 500 million in sales of licences and EUR 200 million in royalties); a broadening of the real estate tax base by updating asset values (to yield at least EUR 500 million additional revenue); an increased taxation of wages in kind, including by taxing car lease payments (by at least EUR 150 million); an increased taxation of luxury goods (by at least EUR 100 million); a special tax on unauthorised establishments (to yield at least EUR 800 million per year); and 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, in particular, 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 1 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 1 January 2011 (including for workers in heavy and arduous professions and those with 40 years of contributions); the abolition of the special rules applicable to persons insured before 1993 (while retaining acquired rights); a substantial narrowing of the list of heavy and arduous professions; a reduction of 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 retirement age; stricter conditions and the 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

[1] 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, p. 36).

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 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 should 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 interference in data projection and accounting;

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

(e) legislation to improve the efficiency of the tax administration and controls;

(f) the launch of an independent review of 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 the collection and processing of general government data, in particular by enhancing the control mechanisms of statistical authorities and of 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) No 2223/96 [1], (EC) No 264/2000 [2], (EC) No 1221/2002 [3], (EC) No 501/2004 [4], (EC) No 1222/2004 [5], (EC) No 1161/2005 [6], (EC) No 223/2009 [7] and (EC) No 479/2009 [8];

(i) the regular publication of information on the financial position of public undertakings and other public entities not classified as part of 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) the final adoption of the measures referred to in paragraphs 2(a) and (d);

(b) draft legislation strengthening the fiscal framework. This should, in particular, include the establishment of a medium-term fiscal framework, the creation of a compulsory contingency reserve in the budget corresponding to 10 % 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;

(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 the rules on collective dismissals to apply, especially for larger companies, and facilitate a greater use of temporary contracts;

(1) 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, p. 1).

(2) 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, 4.2.2000, p. 4).

(3) 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, 9.7.2002, p. 1).

(4) 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, 19.3.2004, p. 1).

(5) 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, 2.7.2004, p. 1).

(6) 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, 22.7.2005, p. 22).

(7) 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, 31.3.2009, p. 164).

(8) 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, 10.6.2009, p. 1).

(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, in particular, robust tendering procedures, and ex ante and ex post controls;

(i) legislation simplifying and accelerating the process of licensing undertakings, 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 issue of decisions and entrusting it with the power to reject complaints;

(k) a better management of public assets, with the aim of raising at least EUR 1 billion per year during the period 2011-2013;

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

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

(a) the final adoption of the measures referred to in paragraph 3(b).

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

(a) a streamlined and 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 carried out.

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 % of GDP. The budget shall, in particular, include the following measures (or in exceptional circumstances, measures yielding comparable savings): further broaden the VAT base by moving goods and services from a reduced to a normal rate (with the aim of collecting at least an additional EUR 300 million); reduce public employment in addition to the rule of one recruitment for every five retirements in the public sector (with the aim of saving at least EUR 600 million); establish excise duties for non-alcoholic beverages (for a total amount of at least EUR 300 million); expand the real estate tax by updating asset values (in order to create at least EUR 200 million in extra revenue); reorganise sub-central governments (aiming at generating at least EUR 500 million in savings); reduce the intermediate consumption of the general government (by at least EUR 300 million compared to the level in 2011); introduce a nominal freeze on pensions; increase efficiency of the presumptive taxation of professionals (with the aim of collecting at least EUR 100 million); reduce transfers to public undertakings (by at least EUR 800 million) following their restructuring; make unemployment benefits means-tested (with the aim of saving EUR 500 million); and collect further revenues from the licensing of gaming (at least EUR 225 million in the sale of licences and EUR 400 million 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) the full implementation of the Better Regulation agenda with a view to reducing administrative burdens by 20 % (compared with 2008).

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

(a) the final adoption of the measures referred to 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 ISO 9001:2008 (quality management) certification.

Article 3

Greece shall fully cooperate with the Commission and transmit without delay, upon a reasoned request from the latter, any data or document required in order to monitor compliance with this 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 an 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 issue and reimbursement;

(f) permanent and temporary public sector employment developments;

(g) government expenditure pending payment (cumulated arrears);

(h) the financial position of 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 those 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, 10 May 2010.

For the Council

The President

M. Á. MORATINOS