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Newsletter

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EU approves Greek stability plan

The European Commission on Feb 3 approved Greece's stability and growth plan which aims to cut the budget deficit from 12.7 per cent to 2.8 per cent of gross domestic product over the next three years.

The Commission said it "shares the ambitious budget deficit reduction targets that the government has set itself, as well as the fiscal measures and the structural reforms announced in the programme." But the approval came only after Greece adopted additional measures at the last minute: an increase in the excise tax on fuel; an across-the-board wage freeze for public sector workers; and a pledge to raise the retirement age this year. The Commission also called on Greece "to spell out the announced fiscal measures and implementation calendar in the coming weeks."

Greece has also pledged to adopt and swiftly implement additional measures as needed, it said. The Commission will closely monitor Greece's implementation of the three-year plan by sending an official team to Athens on a monthly basis.

Analysts called the Commission's approval "lukewarm" and underlined the likelihood that more rigorous measures would be needed. Financial markets also appeared unconvinced. Spreads on Greek bonds over their German equivalent remained high, while credit default swaps – a form of insurance against sovereign default – again approached record levels seen at the end of January.

The plan calls for reducing the deficit by four percentage points of GDP this year – a less ambitious target than it sounds as two percentage points of GDP in last year's deficit cover non-recurring expenditures.

The deficit is projected to fall from 8.7 per cent to 5.6 per cent of GDP in 2011, and to 2.8 per cent of GDP by the end of 2012.

Greece has quantified expected revenues this year from its fiscal consolidation plan, covering the elimination of tax exemptions, increased excise duties on tobacco, alcohol and measures to fight tax evasion.

On spending, the government has imposed a wage freeze for the country's 420,000 civil servants and a 10 per cent cut in allowances – which make up more than 50 per cent of some employee's annual salaries. The cuts amount to a 3-4 per cent reduction in salaries this year.

The government has already legislated a contingency reserve covering 10 per cent of the budget and has adopted nominal cuts in public consumption and operational expenditure. The package would cover the effectiveness of the public administration, stepping up pension and healthcare reform, improving labour market functioning and the effectiveness of the wage bargaining system, enhancing product market functioning and the business environment and maintaining banking and financial sector stability.

Opinion polls showed that most Greeks were prepared to make sacrifices in order to rescue the economy, provided that the pain was fairly divided. The government has promised a crackdown on high-earning tax evaders who use offshore companies as a vehicle to escape taxes through a return to the use of "objective criteria" – luxury homes, cars and yachts – as indicators of income. Plans to liberalise markets – a move that would help revive growth – are moving ahead, with legislation on adopting the EU directive on liberalisation of services due to be approved by parliament by June. Legislation on opening up more than 70 "closed-shop" professions, from taxi-driving to legal services, is due to reach parliament in the second half of this year. The finance ministry predicts a return to growth in the second half – although Greece's economy is still projected to shrink by around 0.3 per cent this year on top of a 1.2 per cent contraction in 2009. It said growth would be spurred by a recovery in tourism and shipping along with demand from the shadow economy. ■