

Presentation of the Greek State Budget for 2008 20 November 2008

The 2008 State Budget is one more step in the Government's efforts to establish a dynamic economy and a fair society.

Major achievements since 2004

The Greek government, by implementing a wide-ranging programme of reforms:

- ✓ Restored fiscal transparency,
- ✓ Reduced fiscal deficits,
- ✓ Lowered tax rates on enterprises,
- ✓ Reduced direct taxation for households,
- ✓ Provided strong investment incentives,
- ✓ Boosted exports with effective initiatives,
- ✓ More than doubled the absorption of structural funds from the European Union,
- ✓ Strengthened social cohesion through targeted initiatives,
- ✓ Boosted employment with various new policies and reduced unemployment by three percentage points,
- ✓ Safeguarded economic growth despite the sharp rise in oil prices. Growth rates over the last few years were among the highest in the eurozone. Economic growth should prove to be more sustainable than before as it is now mainly based on private investment and exports.

Top priorities according to the 2008 Budget

The 2008 Budget is another significant step to achieve the goals set by the government in recent elections:

- ✓ To continue fiscal consolidation and to achieve a balanced budget by 2010
- ✓ To complete the tax reform, with emphasis:
 - on lowering tax rates for households – gradually through 2009,
 - on the establishment of a National Committee to combat tax evasion,
 - on the reform of property taxation.
- ✓ To reinforce social cohesion, through:
 - the establishment of the National Fund for Social Cohesion,
 - the introduction of the national minimum pension starting from 2009.
- ✓ To enhance the development of Greek regions, through:
 - the effective use of 80% of Community funding during the period 2007-2013.
- ✓ To reform the social security system, so as to make it more equitable and efficient.
- ✓ To further enhance the sustainability of growth:
 - by continuing the privatisation programme,
 - by placing emphasis on higher value-added activities that incorporate new technologies and innovations,
 - by promoting the outward orientation of the economy.
- ✓ To further strengthen the transparency of fiscal management
 - through reforms on the process of drafting the State Budget and subsequent monitoring of its execution,
 - by introducing performance budgeting and a modern accounting system for central government accounts.

Key objectives of the 2008 Budget

The 2008 Budget aims to:

- ✓ Further reduce the fiscal deficit to 1.6% of GDP,
- ✓ Continue reducing the public debt as a share of GDP,
- ✓ Substantially support poor households,
- ✓ Combat tax evasion efficiently through the development and implementation of new initiatives,
- ✓ Facilitate regional convergence and development,
- ✓ Address existing issues in local government and social security funds.

Fiscal consolidation in the period 2004 - 2007

The fiscal consolidation achieved during the last three and a half years is substantial:

- ✓ The deficit was reduced from 7.3% of GDP in 2004 (according to the revised GDP data) to levels below 3% in 2006 and 2007, for the first time since Greece entered the EMU.
- ✓ The general government debt has diminished by 5.2 percentage points of GDP during the period 2004-2007.
- ✓ This progress was achieved mainly through the curtailment of expenditure and of tax evasion. At the same time, the tax rates on firms and households have been reduced.

Fiscal consolidation in the period 2007 - 2008

The general government deficit is estimated at 2.7% of GDP this year and is expected to be reduced to 1.6% in 2008. The main targets, as set in the 2007 State Budget, will be achieved, despite the incorporation of an amount of € 1,103 million (0.5% of GDP). This amount arises from tackling the effects of fires in the summer 2007 and offering assistance to the afflicted areas, as well as the settlement of the debt to Olympic Airways in accordance to Court rulings. More specifically, the central government deficit for 2007 will amount to 4.1% of GDP, while the general government deficit is expected to reach 2.7% of GDP. This incorporates an amount equal to € 1,110 million (0.5% of GDP) as a one-off contribution to the E.U. Budget, due to the recent GDP revision as well as the settlement of pending issues since the previous GDP revision.

This consolidation is based on:

1) Total budget **expenditure**, excluding amortization payments, changes only marginally as a percentage of GDP, from 27.8% in 2007 to 27.9% in 2008. This is so despite the considerable increase of funding to support those in need and the increase of Public Investment Programme funds, necessary to strengthen investment and boost growth.

The annual growth of primary expenditure decelerates from 11.7% to 7.3% between 2007 and 2008. The 2008 State Budget provides approximately € 950 million, an amount equal to 0.4% of GDP, as financial support to poor households. This amount will cover increases given to the Farmer's Fund (OGA) and the allowance for low pension earners (EKAS), the increase in unemployment benefits and the funding of the National Fund for Social Cohesion. In addition, increased expenditure amounting to € 670 million (almost 0.3% of GDP) is allocated for higher salaries and pensions for military staff, as well as extra benefits for the judiciary and for families with three children.

2) Net **revenues** of the central government, according to the 2008 Budget, will amount to €60,052 million (€ 55,520 in ordinary revenues and € 4,532 million from the Public Investment Programme). Accordingly, revenues will reach 24.5% of GDP from 23.7% in 2007.

Despite the continuous reduction of tax burden on companies and households, tax revenues will increase by 12.9%, reaching 22.3% of GDP, from 21.1% of GDP in 2007. The improvement in tax revenue collection is mainly a result of further tackling tax evasion, through the intensification of fiscal and customs audits and the restructuring of the system of fuel distribution. Further measures in this direction include tax incentives for consumers to request sale receipts and to comply with their tax obligations. Property taxation is also simplified and rationalised by introducing a unified property tax.

Various facts & figures for 2008

Continued implementation of the Greek reform programme supports the fiscal consolidation efforts and safeguards high growth.

- ✓ The **growth rate** is expected to be 4% in 2008, in line with the projections included in the latest update of the Stability and Growth Programme (SGP), at a point in time when projections for world growth are being revised downwards and uncertainties about the energy market continue to exist.
- ✓ **Private consumption** is expected to grow by 3.5%.
- ✓ **Investment** is expected to increase by 10.5%
- ✓ **Public consumption** is expected to increase by only 0.7%.
- ✓ **Domestic demand** will maintain its momentum and grow at a rate of 4.5%.
- ✓ **Exports** of goods and services are expected to grow by 7.3% and **imports** by 7.8%.
- ✓ In 2008, **private investment** (excluding housing) and exports of goods will account for more than 60% of the real GDP growth rate, thus remaining the main contributing factors of growth.
- ✓ **Employment** growth is expected to reach 1.9%, with the **unemployment** rate further declining to 7.4% from 8.3% this year.
- ✓ **Inflation** is expected to accelerate slightly to 2.8% in 2008, from 2.7% in 2007.

The progress of the Greek economy in key numbers

	2005	2006	2007	2008
General Government Deficit (% of GDP)	5.1%	2.5%	2.7%	1.6%
General Government Debt (% of GDP)	98%	95.3%	93.4%	91%
Real GDP Growth Rate in Greece	3.7%	4.3%	4.1%	4%
Unemployment Rate	9.8%	9.3%	8.3%	7.4%