

## THE 2008 DRAFT BUDGET AT A GLANCE

### HIGHLIGHTS OF THE 2008 BUDGET

- ✓ Greece's first budget drafted since exiting from the excessive deficit procedure.
- ✓ It launches the second phase of fiscal consolidation and economic reforms for sustainable growth.
- ✓ It continues to implement the new economic model for growth, employment and social cohesion, initiated in March 2004.

### PRIMARY OBJECTIVES

- ✓ Further deficit reduction aiming at a balanced budget by 2010
- ✓ Further reduction of unemployment
- ✓ Enhancement of social cohesion
- ✓ High economic growth

### MAIN ELEMENTS OF FISCAL CONSOLIDATION

- ✓ Downsizing the public sector
- ✓ Containing public expenditure
- ✓ Tackling tax evasion
- ✓ Reducing public debt

### PRIORITIES OF THE REFORMS PROGRAMME

- ✓ Tax cuts for enterprises and households
- ✓ Investment incentives
- ✓ Community Support Frameworks (EU funds)
- ✓ Outward orientation of the economy
- ✓ Public Private Partnerships for infrastructure projects
- ✓ New privatizations agenda
- ✓ Strategy for Digital Greece

### ECONOMIC POLICY RESULTS

- ✓ Achieved fiscal consolidation
  - The deficit of the general government was rapidly reduced from 8% of GDP in 2004 to less than 3% in 2006.
  - The debt of the general government was reduced by 6.6 percentage points of GDP in the period 2004-2007.
- ✓ Maintained a rate of growth faster than other Eurozone member states, reaching 3.7% in 2005, 4.3% in 2006 and 4.4% during the first half of 2007. Growth is based on higher private investment and exports.
- ✓ Reduced the unemployment rate from 11.3% in the first quarter of 2004 to 8.1% in the second quarter of 2007.
- ✓ Improved Greece's competitiveness.

**OBJECTIVES OF THE 2<sup>ND</sup> PHASE OF FISCAL CONSOLIDATION & REFORMS PROGRAMME**

- 1. Achieve a balanced budget by 2010**
  - ✓ By tackling tax evasion and illegal activity related to fuel distribution.
  - ✓ By broadening the tax base.
  - ✓ By improving the accounts of state owned enterprises, social security and the national health system.
  
- 2. Reform budget procedures**
  - ✓ By integrating all extra-budgetary accounts to the budget.
  - ✓ By intensifying fiscal audits.
  - ✓ By completing and broadening the implementation of the legal framework for the operation of state owned enterprises.
  
- 3. Complete the final phase of the tax reform**
  - ✓ By reducing the tax rates for individuals with mid-level incomes to 25% by 2009 from 30% and 40% in 2006.
  - ✓ By further tackling tax evasion
  - ✓ By abolishing or simplifying certain property taxes such as those for the first residence and inheritance. The aim is for citizens to pay a small duty for their real estate holdings (excluding the first residence), similar to the regime in most other developed countries around the world.
  
- 4. Reinforce the social welfare system**
  - ✓ By establishing a minimum national pension by 2009.
  - ✓ By setting up the National Fund for Social Cohesion to support poor households.
  - ✓ By supporting low income pensioners.
  
- 5. Boost regional development**
  - ✓ By successfully completing the absorption of the 3<sup>rd</sup> Community Support Framework and the optimal use of funds from the National Strategic Reference Framework 2007-2013.
  - ✓ Through the Investment Incentives Law and Public Private Partnerships.
  
- 6. Reform the pension system**
  - ✓ Through broad social and political dialogue.
  
- 7. Further implementation of the new growth model**
  - ✓ By promoting the outward orientation of the economy.
  - ✓ Through privatizations, the investment incentives law, the digital strategy and the public-private partnerships.

**ECONOMIC POLICY & FORECASTS FOR 2008**

**Further deficit reduction**

- ✓ The deficit is expected to be reduced further from 2.5% of GDP in 2007 to 1.7% in 2008.

**Total expenditure restriction**

- ✓ State budget expenditure is expected to be restricted to 30.1% of GDP in 2008 from 30.4% in 2007 while, at the same time, Public Investment will increase.

**Social spending increase**

- ✓ The restriction of primary expenditure is expected to allow the increase of social spending by 850 million euros, i.e. by 0.4% of GDP, which will be allocated to:
  - an increase of pensions of retired farmers by 19%,
  - an increase of the allowance to low pension receivers by 18%,
  - an increase of the unemployment benefit by 10%.
- ✓ The Social Cohesion Fund is established in an effort to reduce poverty levels with better targeted measures.

**Tax revenues increase**

- ✓ Tax revenues are expected to increase at a 12.3% rate reaching 24.4% of GDP (from 23.2% of GDP in 2007) while corporate and personal income tax rates will be reduced.
- ✓ The increase of tax revenues is attributed to:
  - Maintaining high growth rates.
  - Tackling tax evasion by:
    - intensifying tax audits, cross-checking and customs control
    - restructuring taxation of heating oil to avoid illegal activity
    - providing tax payers with incentives to ask for receipts and fulfill their tax obligations
  - Broadening the tax base by:
    - tackling property tax evasion through the introduction of a single real estate tax.

**Debt reduction**

- ✓ Public debt is expected to be reduced by 3 percentage points of GDP and fall below 100% of GDP – for the first time since 1992.

**High growth rate**

- ✓ As also specified by the Stability and Growth Programme, the growth rate for 2008 is expected to be 4%.
- ✓ Private investment and exports will continue to be the locomotives of economic growth accounting for more than 60% of GDP growth.

**Higher employment, lower unemployment**

- ✓ Employment is expected to increase by 1.9% leading to further unemployment reduction to 7.4% (down from 8.3% in 2007).

**More privatizations**

- ✓ Revenues from privatizations are estimated to reach 1.6 billion euros.

**Private consumption increase**

- ✓ Private consumption is expected to increase at a rate of 3.5%.

**Inflation reduction**

- ✓ Inflation is projected to slightly fall to 2.6% (down from 2.7% in 2007).