

**THE PRESENTATION OF THE 2006 BUDGET AT A GLANCE**  
**21 November 2005**

**Quotes from the Presentation of G. Alogoskoufis, Minister of Economy and Finance (21 Nov. 2005)**



*“Our key priority for 2006 is to reduce the budget deficit to 2.6% of GDP.”*

*“One of our main objectives will be to combat tax evasion.”*

*“We will focus on long-term structural reforms that lead to economic growth, social progress and prosperity for all.”*

*“We have chosen a difficult path. We realize that it will not be easy. What is easy is to be pleasant. What is important though is to be effective. For today and for the days to come.”*

### **The Greek Economy in 2005**

#### Gradual Fiscal Adjustment

A policy of gradual fiscal adjustment was implemented to contain budget deficits but also to safeguard the performance of the economy.

#### 3.6% Growth Rate - One of the Highest Rates in the euro zone

The Greek economy is responding to the reforms introduced in 2005 and is experiencing a 3.6% growth rate. This is among the highest rates in the EU and the euro area where the average growth rates for 2005 are expected to reach 1.5% and 1.3% respectively. Greece managed to maintain high growth rates despite:

- the high oil prices,
- the sub-par economic performance of the euro zone,
- the economic slowdown that was expected after the Olympic Games,
- the fiscal consolidation process underway.

#### Reduction of the Budget Deficit by 2.3 percentage points

This year the general government deficit was reduced from 6.6% of GDP to 4.3% of GDP, in line with Greece's commitments to the European Union.

#### Significant Reduction of Public Spending

The significant reduction of the budget deficit was primarily achieved through the *reduction of public spending* that was based on the establishment of more efficient controls on public expenditure.

#### Decline in the Unemployment Rate

The unemployment rate has fallen from 11% in 2004 to 10.4% in 2005, despite the end of the preparation for the Olympic Games that would cause, according to many economists, a considerable economic slowdown.

#### Structural Reforms

- *Tax Reform* introducing major cuts on corporate taxes so as to spur private investment.
- *New Investment Incentives Law* offering generous financial support to private investment projects.
- *A framework for Public-Private Partnerships* laying the foundations for the active development of state-owned real estate and the more efficient provision of public goods and services through partnerships with the private sector.
- *An ambitious privatizations agenda* that generated 2.15 billion euros in revenue in 2005.
- *Labour Market Reform* aiming to reduce unemployment.
- Various other reforms aiming to stimulate economic growth and create jobs by providing a dynamic, competitive, outward-looking and efficient economic environment.

## The Greek Economy in 2006

### Key Objectives

Secure fiscal stability,  
Increase productivity and encourage entrepreneurship,  
Increase employment & tackle social exclusion.

### Top Priorities

Reduce public deficit to 2.6%,  
Reduce public debt,  
Strengthen social cohesion.

### Primary Focus

#### 1. *Combat tax evasion*

Tax evasion has been a major structural problem for Greek economy. This is illustrated by the fact that revenue from indirect taxation has significantly decreased since 2000 even though there was no reduction in tax rates and while revenues from direct taxation have remained almost steady at about 10% of the GDP.

Significant Decrease in Revenues from Indirect Taxation					
2000	2001	2002	2003	2004	2005
15.3% of GDP	14.8% of GDP	14.7% of GDP	13.9% of GDP	13.8% of GDP	13% of GDP

Measures to combat tax evasion include:

- Improving the efficiency of the Tax Authorities,
- The electronic cross-checking of data through the General Secretariat for Information Systems,
- The re-introduction of periodical mandatory filing of VAT returns,
- Enforcing sanctions to tax evaders.

#### 2. *Reduce public debt*

In 2005, the interest payments surpassed 20% of ordinary budget expenditures and took more than 5% of GDP, depriving resources from major development and social priorities. This is attributed to deficits and debts accumulated over the last 25 years.

The systematic and integrated effort to reduce public deficits will be continued not only in order to meet the Growth and Stability Pact provisions but also to significantly reduce expenditures related to public debt and secure resources for development and social protection policies.

#### 3. *Contain public spending*

Containing public spending is another major challenge in establishing fiscal stability. To this end, public spending is expected to be reduced as follows:

- Ordinary Budget Expenditure: To be reduced from 27.2% of GDP in 2004 to 25.9% of GDP in 2006.
- Primary Expenditure: To be reduced from 21.6% of GDP in 2004 to 21% of GDP in 2006.
- Consumption Expenditure: To be reduced by 3.9% from 2005 to 2006.
- Overtime Expenditure: To be reduced by approximately 2% from 2005 to 2006.

The introduction of a new Law which will revisit the operation of the public sector and the public organizations in particular is expected to significantly contribute to containing public spending.

### The Developmental Dimension of the 2006 Budget

Secure more resources for education, health and employment,  
Direct efforts towards meeting the Lisbon Strategy objectives.

### Structural Reforms Leading to Deficit Reduction

In 2005-2006, the general government deficit is expected to be reduced by 4 percentage points in relation to 2004, falling from 6.6% to 2.6%. From this adjustment, 3.5 percentage points stem from savings of a permanent nature.

### **The Progress of the Greek Economy in Key Numbers**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Comment</b>
<b>General Government Deficit (% of GDP)</b>	<b>6.6%</b>	<b>4.3%</b>	<b>2.6%</b>	<b>Reduction by 4%.</b>
<b>General Government Debt (% of GDP)</b>	<b>109.3%</b>	<b>107.9%</b>	<b>104.8%</b>	<b>Reduction by 4.5%.</b>
<b>Unemployment Rate</b>	<b>11%</b>	<b>10.4%</b>	<b>9.8%</b>	<b>Decrease by more than 1%.</b>
<b>Real GDP Growth Rate</b>	<b>4.7%</b>	<b>3.6%</b>	<b>3.8%</b>	<b>Maintained one of the highest growth rates in the euro zone.</b>