



## INFO ON MAIN STRUCTURAL REFORMS IN 2004-2008

### Tax reform

**In 2004, the Ministry of Economy and Finance passed a new Tax Reform Law to foster entrepreneurship, cut red tape, establish transparency in tax audits, spur private investment and encourage innovation.**

The first phase of the tax reform reduced the corporate tax rate from 35% to 25%, increased tax free personal income by €1000 to €1,000, increased tax cuts for donations and simplified the tax code.

A new business-friendly environment is established for both Greek and foreign investors. The fact that in Greece there is no double taxation of dividends is also of great importance to businesses.

In 2007, the second stage of the tax reform was launched, focusing on lowering personal income taxes and establishing of a fair tax system. As of 2007, all Greek citizens will start paying less taxes as the tax free threshold for physical persons was increased by €1000, reaching €12,000.

By 2009, the central tax rate will gradually be reduced to 25% (from 30% today) and the highest tax rate to 35% (from 40% today). Simultaneously the bracket of the central tax rate will be widened to include incomes of €30,000, from €23,000 today. The highest tax rate of 40% will be maintained only for incomes exceeding €75,000.

Finally the third stage of the tax reform already in place improves and simplifies property taxation and has two main elements. First, it abolishes real estate inheritance taxes for close relatives. As with any transfer of real estate property, there will be a fee of 1% on the objectively defined value, instead. However, the acquisition of a first residence (up to 200 m<sup>2</sup>) is exempted from this transfer fee. Second, a unique property holding tax is introduced, replacing a variety of taxes levied on real estate holding today. Again the primary residence of households is exempt, for houses up to 200 m<sup>2</sup> with objectively defined value up to € 300,000.

## Investment Incentives Law

The New Investment Incentives Law for the period 2007-2013 was introduced in 2006 to improve the previous investment incentives law which has been received very warmly by the business community since the beginning of its implementation (March 2005).

The new Law is placing particular emphasis on regional convergence and on the provision of important incentives for new investment projects, especially to small and medium sized enterprises and covers up to 60% of the investment.

More specifically, this law:

- Increases employment,
- Improves the competitiveness of the economy,
- Boosts entrepreneurship,
- Encourages investment activities of small and medium sized enterprises,
- Fosters technological change,
- Achieves regional convergence,
- Simplifies complex procedures for the evaluation of investment projects.

**Since the enactment of the law in 2005 four thousand private investment projects worth 8.8 billion euros have been approved. These are expected to create more than 21.000 new jobs.**

## Public Private Partnerships

Through PPPs the Ministry of Economy and Finance aims to accelerate the completion of smaller and larger scale infrastructure projects with significant impact to the Greek society.

**Thirty four projects worth four billion Euros have already been approved since March 2006, when the PPP Interministerial Committee was established. These projects fall into different sectors of the economy ranging from education and health to port infrastructure, waste and sewage management, accommodation of public authorities and tourism.**

The main aim of the PPP Unit is to create a new market of projects and services, which will significantly contribute to the development of the Greek economy. To present, the procedures for the appointment of specialized financial, technical and legal advisors have been completed for most of the aforementioned projects. More than 100 Greek and foreign companies have participated in the respective tenders demonstrating the ardent interest of the Greek and international market in Greek PPP opportunities.

The participation of many well-established foreign companies in the tenders of the first pilot PPP projects demonstrates the confidence in the potential of the Greek PPP market – a broad market based on a new and efficient legal framework as well as on swift and transparent procedures.

## Privatizations

The primary goal of the government elected in March 2004 with regard to privatisations, was the decrease of the state's participation in the free market, boost competition and achieve better utilization of state owned property.

Privatisations, as a method of reallocating assets and economic activities from the public to the private sector, have emerged as a valuable tool in forming economic policy and promoting structural reforms that are aimed mainly at supporting economic growth and creating opportunities in multiple fields of economic activity.

The new era of privatisations is characterised by shifting away from the accounting-budgetary approach towards methods that maximize benefits for the national economy. Under this scope, it is important to focus on the value maximization of state owned enterprises, before the privatisation process commences. Thus, the government proceeds first with "mature" enterprises, the value of which is widely recognized in the market.

OECD Report regarding Greek Economy notices (Volume 2007/5, May 2007): «...the current government elected in March 2004, put the existing privatisation program under review, proceeding first with mature enterprises, the value of which is widely recognized by the market».

**Since March 2004, the administration in charge has successfully implemented a series of privatisation transactions that contributed substantially in introducing structural reforms, enhancing competition and generated revenues of €6,314m thus reducing considerably the public debt. Moreover, this increased privatisation activity reintroduced Greece in the international investment arena, since 75% of the privatisation revenues came from foreign investors.**

## International Orientation of the Greek economy

Another target of the government's reform programme has been to strengthen the international orientation of the economy by developing a new integrated export policy.

HEPO, the Hellenic Foreign Trade Board, has been gradually upgraded and now serves as the driving force of thriving Greek exports. Over the last three years HEPO brought 1,200 Greek companies into contact with 3,000 companies abroad.

As a result, exports have rebounded significantly, rising by 34.4 per cent in 2006, as compared to 2004. In addition, in the period 2005-2007 exports went up by 22.8% in constant terms.

The country's strategic geopolitical location is also key for its development - today and in the future. Greece is no longer an isolated economy at the Southeast tip of Europe. With the accession of Bulgaria and Romania to the EU, Greece is now linked with the rest of Europe, serving as a hub on the east-west corridor.