

The 2007 Budget at a glance



"The good performance of the Greek economy during the last two years is not random. It is the direct result of carefully planned policies and reforms, which managed to produce clear and tangible results in every sector of the economy. The 2007 Budget aims to stimulate further economic growth and enhance social cohesion. It builds on what has been achieved since March 2004."

*G. Alogoskoufis
Speech in the Greek Parliament, 14/11/2006*



1. Restored transparency of public finances

- The transparency of public finances and the reliability of accounting methods have been restored in full cooperation with the Eurostat.

2. Reduced budget deficits

- Deficit of the general government reduced by 5.2 percentage points since 2004 - from 7.8% of GDP in 2004 to 2.6% in 2006. It is the first time since EMU entrance that the deficit falls below the 3% ceiling.

3. Strong economic growth

- In 2005, economic growth reached 3.7%. In the first two quarters of 2006 it was 4.1% and it reached 4.4% in the third quarter.
- Greece enjoys one of the highest growth rates in the European Union and the eurozone. In 2005, the growth rate for EU countries was 1.7% and for eurozone members 1.4%, while in Greece it was 3.7%.
- In 2006, Greece is expected to achieve and most likely exceed the target of a 3.8% growth rate set by both the Stability and Growth Programme and the 2006 Budget.

4. Falling unemployment rates

- The unemployment rate has been reduced from 11.3% in March 2004 to 8.3% in the third quarter of 2006 – a reduction of 3 percentage points. This translates into 130,000 unemployed people less.

5. Enhanced social cohesion and rising household income

- During the last two years, actual disposable household income rose at an average yearly rate of 4.3%.
- At the same time, specific actions have been taken to support low income households.

6. Increasing investment

- Total investment in Greece went up by 9.5% in the period between January and September 2006 compared to the same period in 2005.
- Foreign Direct Investment (FDI) was ten times higher in the period between January and September 2006 compared to the same period in 2005.
- FDI exceeded 3.7bn euros in the first 9 months of 2006.

2004-2006: Results of the government's economic policy (continued)

7. Accelerated regional convergence

- Regional convergence gains momentum thanks in part to the Investment Incentives Law, which was put in effect in March 2005.
- 2,260 investment plans have already been approved under this law. They reach €3.4bn and generate 10,187 new jobs.

8. Increased exports

- Exports went up by 13.1% in 2005 vs. 2004.
- Exports increased by 19.4% in the ten months between January and September 2006 compared to the same period of 2005.

9. Improving competitiveness

- The long lasting downward trend was reversed.
- Greece went up eight places according to the Institute for Management Development (IMD).

10. Improved economic environment

- The index of economic climate composed by the EU and the Foundation for Economic and Industrial Research is in a steadily upward trend since June 2005.

The 2007 Budget's main goals

2007 Budget characterized by:

- Effectiveness, and
- Consistency

2007 Budget aims to:

- Continued economic growth.
- Enhanced social cohesion.
- Effective and consistent implementation of the government's agenda.

Highlights:

- The 2007 budget builds on the positive performance of the Greek economy in the past two and a half years, which is the result of a reliable, responsible and consistent economic policy.
- It seeks to improve living conditions for all citizens. It aims at better economic performance, enhanced social cohesion, and at healthy public finances.
- The commitments of the government are materializing for the benefit of all Greeks.

2007 Budget milestones

Completion of the first stage of the tax reform

- *Objective:* To stimulate entrepreneurship and increase employment during the critical period after the Olympic Games.
- *Actions:*
 - ✓ Reduced tax rates for companies from 35% to 25%.
 - ✓ Increased tax free personal income by €1000 to €1,000.
 - ✓ Increased tax cuts for donations.
 - ✓ Simplified tax code.

Launching of the second stage of the tax reform

- *Objective:* Tax relief and promoting a fair tax system.
- *Actions:* This stage of the tax reform relates to personal income taxes. As of 2007, all citizens will start paying less taxes as:
 - The tax free threshold for physical persons will be increased by €1000, reaching €12,000.
 - During the next three years (2007-2009), 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.

Fulfilling the commitments made by the government regarding enhanced social cohesion

The following policies and actions are coming into effect in 2007:

- Pensions of retired farmers and social security contributions to low pension receivers will be raised by 22%
- Minimum unemployment benefit will be raised by 18%
- Retired military personnel will receive additional support.
- A Cohesion Fund is established to support income of older unemployed citizens who cannot get work living in areas with an increased unemployment rate.
- All taxes for individuals will be reduced.

Drastic reduction of public debt as a percentage of GDP

- The reduction of the general government's debt as a percentage of GDP expected to reach approximately eight percentage points between 2004 and 2007, placing Greece among the leading Eurozone countries regarding the rate of debt reduction.
- From 108.5% of GDP in 2004, debt is reduced to 104.3% of GDP in 2006 and is expected to reach 100.4% in 2007.

Further deficit reduction

- The deficit is expected to be reduced further to 2.4% of GDP, solely with structural measures. Requirements to exit the Excessive Deficit Procedure are being met. Substantial improvement is recorded in the quality of fiscal data.

Safeguarding a high rate of growth

- The rate of growth is expected to reach 3.8%, driven mainly by investment. Investment is expected to increase by 7.4%.

Positive developments in trade

- Exports of goods and services are expected to rise by 6.5%. Specifically, exports of goods are expected to increase by 9.5% and imports by 6.9%.

Lower unemployment - higher employment

- Robust economic activity is expected to strengthen employment and to reduce unemployment further, to 8.2%.
- Employment is expected to rise by 1.7%.
- The rate of productivity growth is expected to remain high.

Rising income for wage earners

- The average gross wage is expected to increase by 3%.

State expenditure falling as a percentage of GDP

- Public spending is expected to be reduced from 27% of GDP in 2004 to 25.6% in 2007, despite increased funds provided for social priorities.

Improving household income – support for low income households

- Expenditure for improving the income of low income households is expected to be higher by 1.2bn euros in 2007 (equal to almost 0.6% of GDP). It will be channelled mainly through increases in pensions.

2007: Actions for more balanced growth, reduced deficits and higher competitiveness

- Structural reforms in product markets,
- Further reduction of bureaucracy,
- Emphasis on the further development of the Investment Incentives Law,
- More efficient public procurement procedures,
- Acceleration of Public Private Partnerships projects,
- Continuation of the privatisations' agenda,
- Better running of State Owned Enterprises,
- Reforms aiming to the efficient operation of the job market.

National Program for the Drafting of the Budget (NPDB)

Goals

- Reform the way the budget is being drafted, so as to better serve the need for transparency in the management of public funds and the need for the assessment of their impact in terms of cost and benefit.
- NPDB consists of a structured fiscal register, which presents the revenues and expenditures of the state budget grouped in functions and activities.

Implementation

- The basic priority in the implementation of the new structure of the state budget is the seamless transition to the new system.
- NPDB is adapted to the administrative structure of the state, by using the existing lines for revenues and expenditures of the state budget. Thus, during the initial stages of its application, its application will not cause disruptive changes in the structure and operation of the public sector.

Expected Results

- A unified depiction of the state budget.
- Specification of the cost of a programme implemented by various entities.
- Strengthening the sense of responsibility for all departments.
- Decentralisation of responsibility for the rational management of public funds.

Long-term objectives of economic policy

The efforts for the improvement of public finances shall be maintained throughout the upcoming years. As every EU country with budget deficits, Greece must achieve an annual reduction of the budget deficit by 0.5% of GDP, on the basis of structural measures. The aim of the Greek government through the policy of gradual fiscal adjustment is to achieve balanced budgets (or even some surplus), by 2012.