Greece

1. Economic situation

The Greek economy is in a recession in the wake of the economic and sovereign debt crisis, exacerbated by the impact that austerity measures are having on private consumption and investment (Figure 1A). Consistent budget deficits over the past decade culminated in an unprecedented budget deficit of 15.4% of GDP in 2009 (Figure 1B) and the public gross debt level to more than 127% of GDP in 2009 (Figure 1C).

To avoid sovereign debt default, Greece has taken a strict fiscal consolidation and structural reform path in an effort to stabilise the rapid increase in government debt in line with an agreement with the European Commission (EC), the European Central Bank (ECB) and the IMF. The government expected economic activity to contract by 4.2% in 2010 and a further 3% in 2011. As the impact of structural reform unfolds and external demand strengthens, economic growth is projected to turn positive in 2012.

Figure 1. **Key economic indicators**

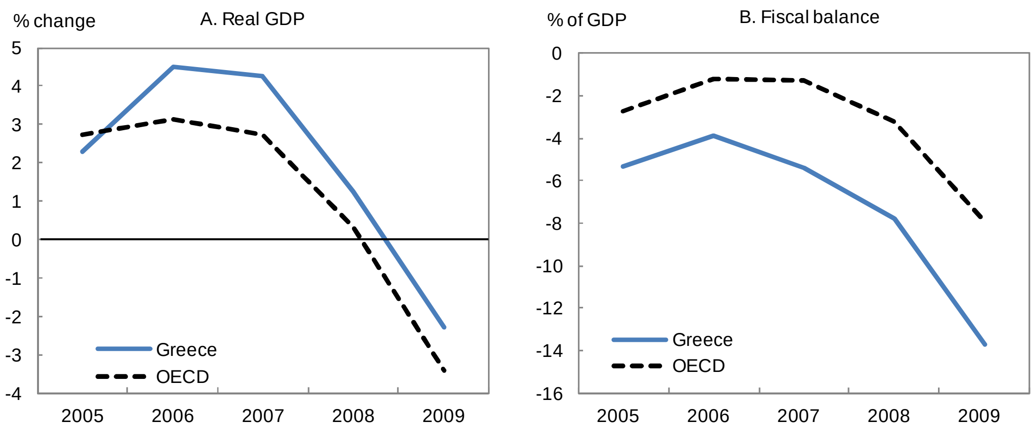
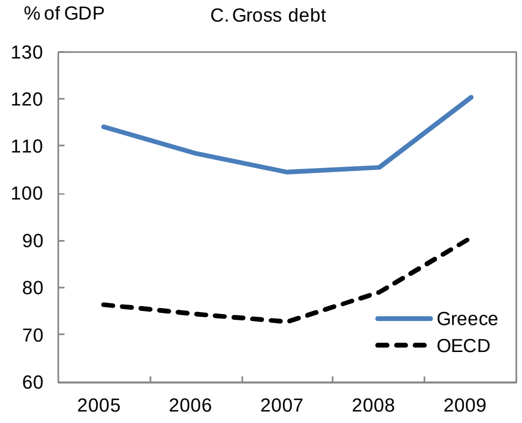


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Sources: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), doi: 10.1787/data-00533-en; Eurostat, November 2010.

2. The government's fiscal consolidation strategy

Greece continues to implement its Economic Policy Programme with support from the EC, ECB and IMF. Greece aims to cut its budget deficit to below 3% of GDP by 2014, increase competitiveness and growth through sweeping structural reforms that will help the country to return to positive growth rates by the end of 2011, and safeguard the stability of the financial sector. The focus of the fiscal consolidation programme is on strict expenditure control and improvements in tax compliance with the aim of stabilising the level of public debt.

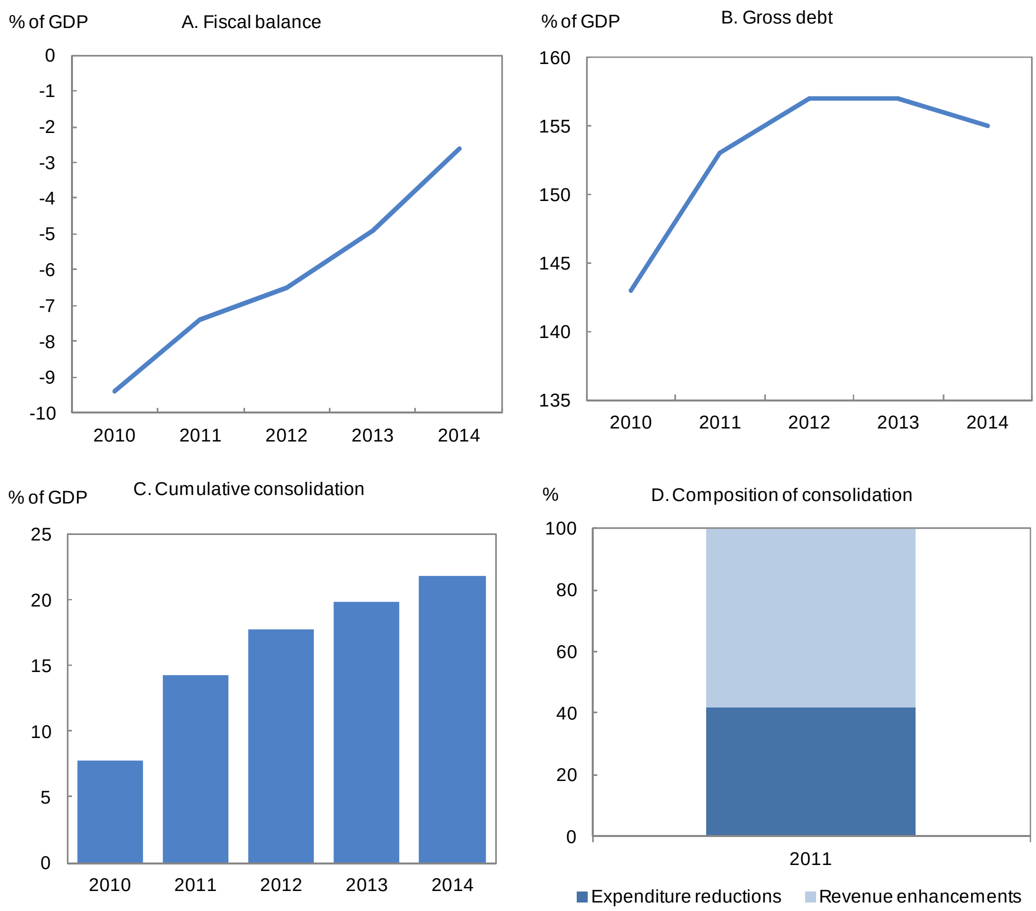
The scale of fiscal consolidation in 2010 was very large, with a reduction of the general government deficit reaching about 6% of GDP to 9.4% of GDP in 2010. This adjustment was larger than the 5.5% of GDP adjustment which was initially projected, despite the negative impact of the recession on the budget. Nevertheless, the 2010 budget deficit exceeded the Economic Policy Programme target of 8.1% of GDP because of an upward revision of the 2009 deficit by Eurostat in November 2010 (the deficit revision was mainly due to the reclassification of public corporations into general government and an adjustment of accounts of social security funds and local government). In 2010, primary expenditure control was better than envisaged, while revenues remained relatively subdued despite specific measures to reduce tax evasion and raise indirect taxes.

In December 2010, the Greek Parliament adopted the 2011 budget, which fully offsets the impact of fiscal data revisions and achieves the original target of 7.5% of GDP set in the Economic Policy Programme. In contrast to 2010, in 2011 revenue increases are expected to contribute more than expenditure measures to reduce the fiscal deficit (Figure 2D). As in 2010, the size of the required fiscal adjustment in 2011 is substantially larger than the expected cut of the actual deficit because of the increase in interest payments, the impact of the recession on tax revenues and social spending and other more structural factors causing an underlying deficit drift. To reduce the budget deficit by 2% of GDP in 2011, the total amount of measures announced reaches 6.5% of GDP in the current budget.

To support fiscal consolidation efforts, the Greek government passed the Fiscal Management Law in July 2010 to overhaul the budget preparation, execution and monitoring process. The law includes expenditure ceilings and the creation of a Parliamentary Budget Office (see details in Section 4).

This fiscal consolidation process will continue over the 2012-14 period as indicated in the Economic Policy Programme. The programme sets a deficit target of 6.4% in 2012, 4.8% of GDP in 2013 and 2.6% of GDP in 2014 (Figure 2A). The details of the fiscal adjustment in 2012-14 will be articulated in March 2011, in time for the start of the 2012 budget cycle. Preliminary estimates suggest that an additional fiscal adjustment amounting to 5% of GDP will be needed during 2012-14 to bring the deficit below 3% of GDP. While still sizeable, this adjustment will be much smaller than the one achieved over the two years to 2011. A "cold shower" approach is followed with a substantial and immediate consolidation effort of around 7.8% of GDP in 2010, an additional effort of 6.5% of GDP in 2011 (including carryovers), totalling more than 20% of GDP between 2010 and 2014 (Figure 2C). Despite this large fiscal adjustment effort, gross debt is expected to peak in 2013, reaching close to 155% of GDP in 2014 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Sources: "OECD Fiscal Consolidation Survey 2010", Greek Ministry of Finance (adjusted for Eurostat revisions November 2010).

3. Major consolidation measures

Greece continues to implement a wide range of measures to consolidate public finances. Operational measures amount to around 1% of GDP and programme measures around 1.8% of GDP in 2011. On the revenue side, VAT hikes and measures to counter tax evasion contribute substantially.

Table 1. **Major consolidation measures**

Millions EUR (% of GDP[1])

		2011
Expenditures		**6 500 (2.81)**
1. Operational measures		2 450 (1.06)
Carryover of 2010 measures		
– Wages and pensions	General government wage and allowance cuts	500 (0.22)
	Income policy for pensioners (reduction of 13th and 14th pension)	500 (0.22)
	Reduction of high pensions	150 (0.06)
Measures included in Economic Policy Programme		
– Staffing	Replace only 20% of retiring employees	
– Public consumption	Reduce intermediate government consumption	300 (0.13)
– Public administration reform	Reform and reorganisation of local government by reducing the number of local administrations, entities, and elected and appointed officials. Limiting borrowing, reduce transfers, and control local government budgets	500 (0.22)
– Pensions	Freeze in indexation of pensions	100 (0.04)
– SPA	Savings from the establishment of a Single Payment Authority	100 (0.04)
New measures in 2011		
– Operating expenses	Further reduction in transfers and operating expenses by 5%	200 (0.09)
– Staffing	Reductions in short-term public employment contracts	100 (0.04)
2. Programme measures		4 050 (1.75)
Measures included in Economic Policy Programme		
– Investments	Reduce domestically financed investments	500 (0.22)
New measures in 2011		
– Pharmaceutical	Reduce expenses	2 100 (0.91)
– State-owned enterprises	Strengthen performance of loss-making public enterprises in order to reduce contingent risk to the budget and increasing tariffs in public transportations	800 (0.35)
– Family policies	Means-tested family benefits	150 (0.06)
– Defence	Reduction in military expenditures (deliveries)	500 (0.22)

Table 1. **Major consolidation measures** *(cont'd)*

Millions EUR (% of GDP[1])

		2011
Revenues		**7 830 (3.38)**
Carryover of 2010 measures		
– Excise taxes	Increase in fuel excise tax	250 (0.11)
	Increase in cigarettes excise tax	250 (0.11)
	Increase in excise alcohol and luxury goods tax	100 (0.04)
– VAT	Increase in VAT rate	750 (0.32)
– Property	Incentive to regularise land-use violations	150 (0.06)
Measures included in Economic Policy Programme		
– VAT	Replacement of the move of 30% of goods and services from 11% to 23% VAT rate	1 050 (0.45)
– New tax framework for firms	Special levy on profitable firms	680 (0.29)
– Income tax	New income tax framework	900 (0.39)
– Gaming	Revenues from the new framework for gaming	700 (0.30)
– Special tax	Special tax on unauthorised establishments	300 (0.13)
– Real estate	Increase in real estate legal values	270 (0.12)
– Green taxes	Green taxes increase	150 (0.06)
New measures in 2011		
– Tax evasion	Measures against tax and social contributions evasion	1 590 (0.69)
– State assets	Renewal of telecommunication licenses and sales of frequencies	350 (0.15)
	Extension of the Athens airport concession contract	250 (0.11)
	Revenues from guarantees	90 (0.04)

1. OECD calculations using OECD forecasts of nominal GDP for 2011.

Sources: "OECD Fiscal Consolidation Survey 2010"; Greek Ministry of Finance.

Pension reform

The statutory retirement age for women has increased from 60 to 65 years (in line with men). The minimum retirement age of 60 will be set for all workers by 2015; will require 40 years of contributions to receive full benefits (up from 37); and will reduce benefits by 6% per year for those who claim retirement before age 65 without 40 years of contributions. Pensions will be cut to reflect a pensioner's average pay over their entire working life rather than his or her final five or ten years' salary. The pension reform is far-reaching and covers a number of other key reform elements including consolidation, indexation, simplification, compliance and monitoring.

4. Institutional reforms

The Fiscal Management Law was passed in July 2010, and overhauls budget preparation, execution and monitoring procedures to support the fiscal consolidation strategy and to enshrine fiscal discipline at the general government level. The new law introduces an annual rolling three-year fiscal and budgetary strategy; top-down budgeting with medium-term expenditure ceilings for the state budget; commitment controls for these ceilings; requirement for supplementary budget for any overspending; and strengthens accountability and transparency including by creating a Parliamentary Budget Office. Importantly, the law extends reporting commitments to all local governments, social security funds and other entities. The law also includes principles to support fiscal consolidation after the current three-year programme, thus setting out the basic elements for establishing a fiscal rule.

Table 2. **The government's fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation volume (cumulative)	7.8%	14.3%	17.8%	19.9%	21.8%
Total deficit(-)/ surplus(+)	-9.4%	-7.4%	-6.5%	-4.9%	-2.6%
Underlying primary balance deficit[1]	-0.4%	2.9%	3.5%	4.3%	5.6%
Total level of debt	143%	153%	157%	157%	155%
Fiscal consolidation by expenditure reduction and revenue enhancement (total = 100%)					
Expenditure reductions	66%	45%			
Revenue enhancements	34%	55%			

1. The underlying primary balance is derived from the government's targeted deficit path, taking into account the baseline assumptions of EO88. The cumulative consolidation figures which are estimated on the basis on information provided by the national authorities, the EC and IMF are higher in the case of Greece than those estimated by the cumulative improvement in the underlying primary deficit. In addition to the negative effect induced on the deficit by the normal cyclical effect and the rise in interest payments, a deficit drift is expected in the case of Greece in absence of fiscal corrective measures. The causes of this deficit drift include: *i)* the sharper contraction of tax bases for many of the revenue items compared with nominal GDP, i.e. consumption, operating profits as well as the wage bill; this implies that in the current downturn the cyclical increase of the fiscal balance is estimated to be significantly larger than implied by the usual OECD method; *ii)* age-pension spending pressures are also driving up the pension bill, partly because of the significant increase in early retirements before the adoption of the recent pension reform.

Sources: "OECD Fiscal Consolidation Survey 2010"; OECD calculations.