GREECE Macro Flash

Government Budget 2020

December 2019

NATIONAL BANK OF GREECE

A growth-friendly Budget for 2020, financed through efficiency gains and cyclical tailwinds

Box with key measures of Budget 2020 and the new Tax Law on pages 8-9

Greece's Government Budget for 2020 capitalizes on the favorable fiscal trends in 2019 – with fiscal overperformance expected, despite the implementation of expansionary measures of c. 1.0% of GDP.

The achievement of a General Government primary surplus of 3.73% of GDP in FY:2019, compared with a primary surplus of 4.16% of GDP in 2018, is underpinned by a decline in State primary spending of 1.7% of GDP (-4.3% y-o-y), in conjunction with a reduction in the Public Investment Budget deficit of 0.6% of GDP (mainly due to higher revenue from the EU).

Lower spending in 2019 offset: i) a decline in State revenue of 0.7% of GDP; and ii) a deterioration in the fiscal position of non-State General Government entities by 2.1% of GDP (mainly due to lower State transfers) compared with FY:2018.

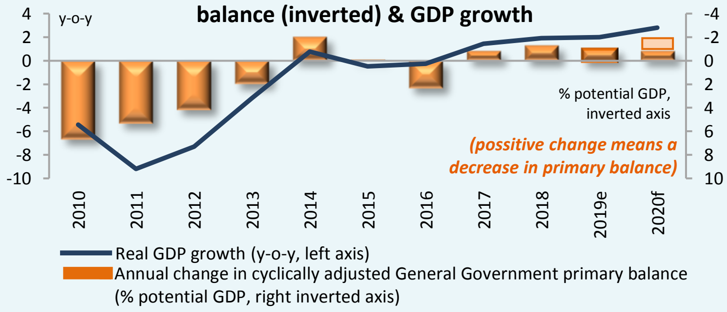
For 2020, the Budget envisages the implementation of expansionary measures of 0.6% of GDP (€1.2 bn), which will be exclusively financed by efficiency improvements and supportive cyclical conditions.

A significant increase in the minimum threshold for cashless transactions for up to 30% of one's actual personal income is envisaged to support tax efficiency, providing c. €0.5 bn of additional tax revenue under an implicit assumption of an increase in cashless payments in 2020 by about 20% y-o-y, according to NBG estimates.

Approximately 50% of the new expansion package comprises tax relief for corporates – which typically has a high growth multiplier, affecting business decisions for investment, employment and production.

Provided that measures for 2020 focus on areas with high fiscal multipliers, the effective fiscal impulse to GDP growth exceeds 1.0 pp, assuming a small improvement in the international environment, stabilization of economic sentiment at its current level, and a steady improvement in liquidity conditions.

Net change in cyclically adjusted General Government primary balance (inverted) & GDP growth



Nikos S. Magginas, PhD
Chief Economist, Head of Economic Analysis
e-mail: nimagi@nbg.gr

NBG Greece Macro Analysis Team

Effrosyni Alevizopoulou, PhD
(+30210) 334 1620
e-mail: alevizopoulou.e@nbg.gr

Aikaterini Gouveli, MSc
(+30210) 334 2359
e-mail: gouveli.aikaterini@nbg.gr

Eleni Balikou, MSc
(+30210) 334 1198
e-mail: balikou.eleni@nbg.gr

Eleni Kyrkopoulou, PhD
(+30210) 334 1629
e-mail: kyrkopoulou.eleni@nbg.gr

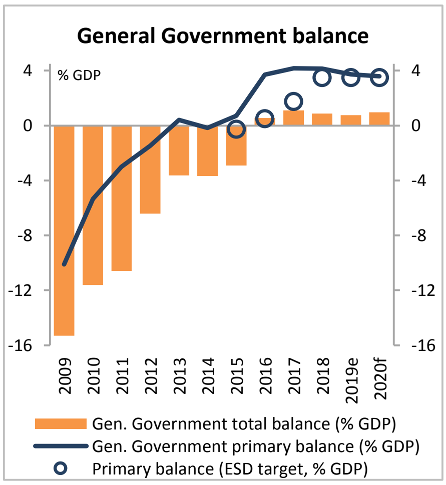
NBG | Economic Analysis Department
Greece Macro Analysis Team
86 Eolou Str., 105 59 Athens, Greece

A growth-friendly Budget for 2020, conditioned on streamlined spending and higher tax efficiency

Greece's Government Budget for 2020 capitalizes on the favorable fiscal trends in 2019 – with fiscal overperformance expected, despite the implementation of expansionary measures of c. 1.0% of GDP (mainly supporting household income). This should help engineer a new round of fiscal expansion in 2020, when the policy mix is enhanced with measures that support business activity, remaining compatible with the primary surplus target of 3.5% of GDP.

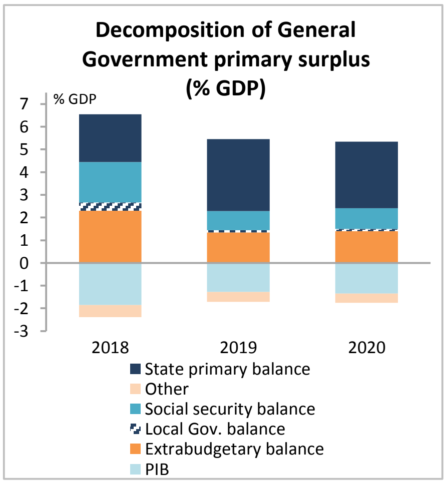
Specifically, according to the Budget 2020, Greece's General Government primary surplus is estimated at 3.73% of GDP in FY:2019 (Enhanced Surveillance Definition ("ESD")), exceeding the ESD maximum target (of 3.5% of GDP) for a 4th consecutive year. This fiscal performance is notable since it is expected to be achieved in a year when around €2.0 bn of expansionary measures (according to the initial official estimates) have been implemented, comprising mainly: i) a government transfer for financing the partial reinstatement of the "13th pension" corresponding to additional spending of nearly 0.5% of GDP; ii) a reduction in the VAT rate (since late May 2019) for the most part of the restaurant & catering services and some processed food & non-alcoholic beverages (previously taxed at 24%), as well as for electricity and natural gas with a combined fiscal cost of about 0.2% of GDP; and iii) a 22% weighted average reduction in the unified property tax ("ENFIA") amounting to 0.3% of GDP (compared with an initially-estimated cost of 0.1% of GDP in Budget 2019 for a planned ENFIA reduction of 10%).

General Government primary balance estimated at 3.7% of GDP in FY:2019, exceeding the Enhanced Surveillance Definition ("ESD") target for a 4th consecutive year



However, the projected annual decline in the General Government primary surplus by only 0.4% of GDP in FY:2019 – to an estimated 3.73% of GDP in 2019 from 4.16% in 2018 – is estimated at less than half the value of the expansionary measures implemented during the year, suggesting that there have been supportive factors coming into play, which partly compensated for the cost of the expansion.

Credible expenditure restraint in the State Budget in 2019 leads to a significant increase in State surplus that compensates for lower surpluses of other General Government entities



Credible expenditure restraint in the State Budget in 2019 offsets a decline in revenue (as per cent of GDP) and lower surpluses of other General Government entities

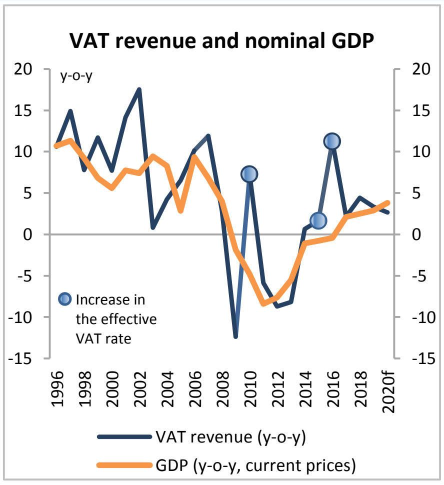
The prospective fiscal outcome in FY:2019 is underpinned by a decline in State primary spending of 1.7% of GDP (-4.3% y-o-y, excluding public investment budget ("PIB") expenditure), in conjunction with a reduction in the PIB deficit of 0.6% of GDP, which largely offset a decline in net State revenue of 0.7% of GDP and a deterioration in the fiscal position of non-State General Government entities by 2.1% of GDP, mainly due to lower State transfers. Most notably, the primary surplus in State Budget (excluding PIB and SMP/ANFA) is expected to increase by 1.0% of GDP to 3.1% of GDP in FY:2019.

Sources: EL.STAT., Ministry of Finance, EU Commission, NBG estimates

Decomposition of General Government Balance (% GDP)			
ESA adjusted, as % of GDP	**2018**	**2019e**	**2020f**
Net Revenue, State *(excl. ANFA & SMP and PIB revenue)*	**26,8**	**26,1**	**25,5**
a. Tax revenue	**27,7**	**27,0**	**26,4**
Personal income tax	5,9	5,8	5,8
Corporate income tax	2,4	2,3	2,0
Property taxes	1,6	1,4	1,4
VAT	9,3	9,4	9,3
Excise consumption taxes	3,9	3,8	3,7
Taxes and tariffs on imports	0,1	0,2	0,2
Other taxes on production	0,7	0,5	0,6
Other tax revenue	3,8	3,6	3,5
b. Non-tax revenue	**2,1**	**2,2**	**1,7**
c. Tax refunds	**2,9**	**2,6**	**2,5**
PIB revenue	*1,5*	*2,0*	*2,1*
ANFA & SMP revenue	*-0,2*	*-0,5*	*-0,1*
State Budget Expenditure according to ESA	**31,9**	**29,7**	**29,0**
Primary expenditure, State	**24,7**	**23,0**	**22,5**
Compensation of employees	7,1	6,8	6,8
Social benefits	1,0	0,1	0,1
Transfers	15,6	14,8	14,1
Purchases of goods and services	0,7	0,8	0,5
Subsidies	0,1	0,0	0,0
Other expenditure	0,0	0,0	0,0
Non allocated expenditure *(excl. PIB expenditure)*	0,1	0,3	0,8
Purchase of fixed assets	0,2	0,1	0,2
PIB expenditure	*3,4*	*3,2*	*3,4*
Public Investment Budget (PIB) balance	**-1,9**	**-1,3**	**-1,3**
State Budget primary balance *(ESA adj.)*	**0,4**	**2,3**	**1,8**
Extrabudgetary funds balance	**2,2**	**1,3**	**1,4**
Hospitals balance	**0,1**	**0,0**	**0,0**
Local Governments balance	**0,4**	**0,1**	**0,1**
Social Security Funds balance	**1,7**	**0,8**	**0,9**
Non-State General Government entities balance	**4,4**	**2,3**	**2,4**
Other adjustments	**-0,5**	**-0,4**	**-0,4**
General Government primary balance *(ESA adj.)*	**4,3**	**4,1**	**3,8**
Adjustments (ESD)	**-0,1**	**-0,4**	**-0,2**
General Government primary balance *(ESD adj.)*	**4,2**	**3,7**	**3,6**

Sources: Ministry of Finance & NBG estimates

VAT revenue growth remains solid, despite the reduction in rates in sub-categories of food and services in late-May 2019



Sources: *EL.STAT., Ministry of Finance, Eurostat, NBG estimates*

Specifically, State expenditure on social benefits is estimated to decline in 2019 by 86.6% y-o-y (-0.9% of GDP, partly due to the payment of the "social cohesion" benefit directly from social security funds financed by an additional State transfer) and total transfers by 2.7% y-o-y (-0.8% of GDP), respectively, in FY:2019, excluding the disbursement of nearly €1.0 bn (0.5% of GDP) for the payment of the "13th pension" in May 2019 and an allocation of €0.4 bn for payments related to court rulings made in 2018. These latter payments were made through the contingency reserve incorporated in the "non-allocated expenditure" account of the State Budget (which also includes other categories of social spending and public investment funding). However, total expenditure from this latter account is expected to increase by only 3.9% y-o-y in FY:2019, remaining relatively stable as a per cent of GDP, pointing to additional savings in other categories of State spending. In fact, the combined amount of State expenditure on social benefits, transfers and disbursements from the "non-allocated expenditure" account (excluding PIB spending) is envisaged to decrease to 15.1% of GDP in FY:2019 from 16.7% in FY:2018, exhibiting an annual decline of 6.9% y-o-y. These outcomes reflect the sustainability of expenditure restraint, which is amplified by supportive base effects due to the increased spending in 2018 for the retroactive clearance of State obligations to specific categories of public servants, following relevant rulings of the Council of State (corresponding to additional spending of 0.3% of GDP recorded in 2018).

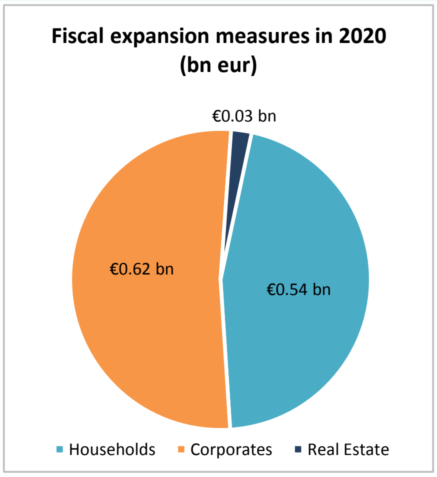
On the revenue side, both tax and total net revenue (excluding SMP/ANFA proceeds and PIB funding) are expected to record a small increase of 0.2% y-o-y in FY:2019, declining, however, by 0.7% of GDP on an annual basis since nominal GDP is expected to grow by 2.9% y-o-y.

VAT revenue remains the best performing revenue component for a 4th consecutive year, increasing at a similar pace to nominal GDP – prospective VAT revenue growth of 3.3% y-o-y in FY:2019 following a 4.0% y-o-y increase in VAT revenue in 10M:2019 – despite the above-mentioned reduction in VAT rates in subcategories of goods and services (corresponding to almost 10% of the value of the typical consumer basket). Accordingly, the share of VAT revenue in GDP is expected to increase slightly to 9.4% of GDP in 2019 from 9.3% in 2018.

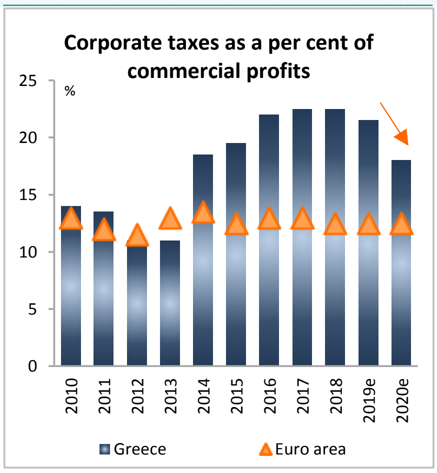
In this regard, revenue from property taxes is expected to decline by only 0.2% of GDP in 2019 (-10.2% y-o-y), slightly overperforming initial estimates regarding the cost of the effective annual reduction in ENFIA of 22% applied since August 2019 (ENFIA corresponded to more than 90% of total State revenue from property taxes in 2018). This development points to a small improvement in compliance following the reduction in the effective rate.

Nonetheless, aggregate revenue from personal income tax ("PIT") and corporate income tax ("CIT") is expected to record a slight decrease as a per cent of GDP, since their estimated growth of 1.9% y-o-y and 0.8% y-o-y, respectively, in FY:2019 will be milder than the projected nominal

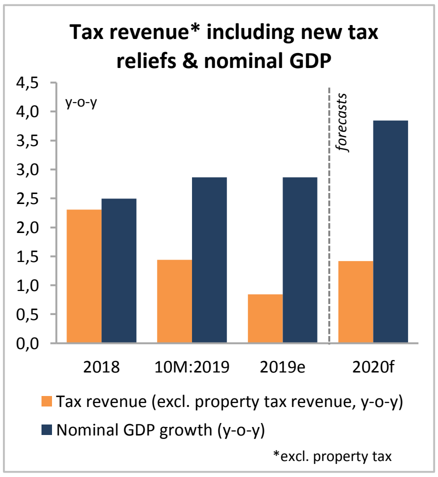
About half the value of the expansion package for 2020 comprises tax relief for corporates…



…bringing the effective tax burden for corporates closer to the euro area average



Budget 2020 assumptions on cyclical buoyancy of aggregate tax revenue are realistic even when adjusting for the planned tax relief



GDP growth. This relatively weak performance largely reflects: i) lower reported incomes by self-employed, small entrepreneurs and other categories of non-wage incomes, which continue to inhibit a broadening of the PIT base; and ii) continuing erosion of the CIT base from a still significant share of loss-making firms (especially less competitive SMEs, which account for a considerable share of domestic business activity).

The deficit of the PIB is expected to narrow to 1.3% of GDP in 2019 from 1.9% in 2018, mainly reflecting higher inflows of EU funding of 0.6% of GDP, with PIB spending contracting to an estimated 3.2% of GDP in 2019 from 3.4% in 2018 (annual change of -1.4% y-o-y).

All in all, the above-described trends in State revenue and expenditure, in conjunction with the shrinkage in the PIB deficit, are envisaged to lead to a substantial net improvement in the State primary balance of 1.9% of GDP (surplus of 2.3% of GDP in 2019 from 0.4% in 2018).

This improvement is expected to largely offset the deterioration in the fiscal position of extra-budgetary funds (including hospitals) and other government entities (local governments and socials security funds), which are expected to record a combined surplus of 2.3% of GDP in 2019 from 4.4% of GDP in 2018. More than ¾ of this deterioration reflects the decline in total transfers to those entities, which led to a broadly analogous drop in their total revenue. Specifically, transfers from State Budget funding to extra budgetary funds (including hospitals), local governments and the social security system (adjusted for the disbursement of the "13th pension") are expected to decline by 0.7%, 0.6% and 0.3% of GDP, respectively, in FY:2019, in the context of consistently tighter spending control. The observed shrinkage in the surpluses of these categories was expected and reflects an ongoing transition from a regime of high dependency to a period when "structural" rebalancing gains ground. In this regard, it is encouraging that revenue of the social security funds (excluding transfers) and local governments recorded positive growth rates of 1.0% y-o-y and 4.5% y-o-y, respectively in 2019.

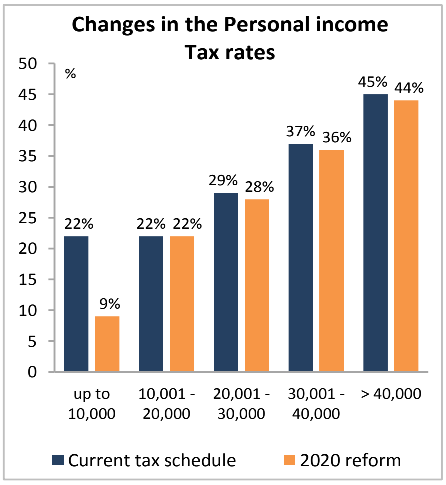
The new set of expansionary measures for 2020 focuses on areas with higher growth potential, with fiscal costs covered by efficient expenditure control and supportive cyclical factors

For 2020, the Budget envisages a slight decline in the primary surplus to 3.58% of GDP from 3.73% in 2019, related to the implementation of new expansionary measures of 0.6% of GDP (€1.2 bn). In fact, the fiscal strategy for 2020 aims at implementing a fiscal expansion, which will be exclusively financed by efficiency improvements and more supportive cyclical conditions amplified by a more growth-friendly policy mix.

In this respect, about 50% (€0.62 bn) of the new expansion package (see Box on pages 8-9) comprises tax relief for corporates – which typically has a high growth multiplier

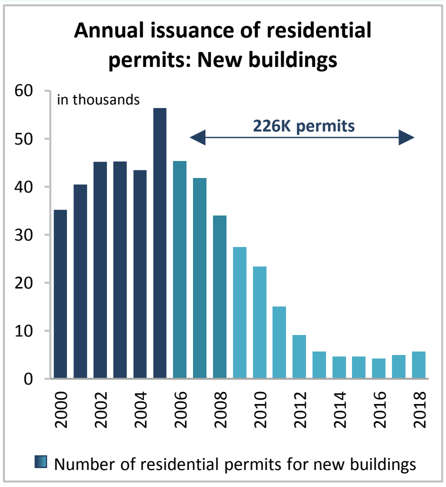
Sources: *EL.STAT., Ministry of Finance, EU Commission, NBG estimates* affecting business decisions for investment, employment and production. Accordingly, the tax rate on corporate income will be reduced from 28% to 24% for the fiscal year 2019 and the dividend withholding tax from 10% to 5% for profits distributed from 2020 onwards.

The new PIT scale is more supportive for lower income families and the self-employed



The rest of the measures aim to support personal income, through: i) a lowering of the introductory tax rate for incomes up to €10,000 to 9% from 22% currently, and by 1 pp for tax rates applying to incomes higher than €20,000; ii) a small decrease in social security contributions of full-time employees from the second semester of 2020 onwards; and iii) the provision of targeted social benefits supporting family income. In fact, the effective relief from the above interventions in personal income taxation is relatively higher for low-income families, as well as for the self-employed. This latter category, which corresponds to about 20% of total taxpayers, has no tax-free bracket such as employees and pensioners and, under the new regime, will be taxed at a rate of 9% for the first €10,000 of their income instead of 22% previously. It should be noted, however, that corporates and employees will immediately benefit from the measures and thus the related expansionary impact will become evident in 2020, while the self-employed will feel the relief in 2021 upon clearance of their tax statements for incomes earned in 2020. Accordingly, the fiscal cost for this category, along with the related stimulus to their incomes, will be felt in 2021, although sentiment could improve earlier.

VAT application is suspended for dwellings constructed with a permit issued post 1/1/2006



Finally, a subset of measures related to the real estate market (suspension of VAT on buildings constructed with a permit issued post 1/1/2006, corresponding to more than 200k dwellings, and of capital gains on property, along with the provisions of tax incentives for building upgrades) are intended to support construction activity and real estate market transactions, providing additional impetus to the recovery observed since 2018. It should be noted that the cost of the measures related to real estate is estimated at only 0.01% of GDP in 2020, with the fiscal impact of the incentive scheme for building upgrade and renovation starting from 2021 onwards.

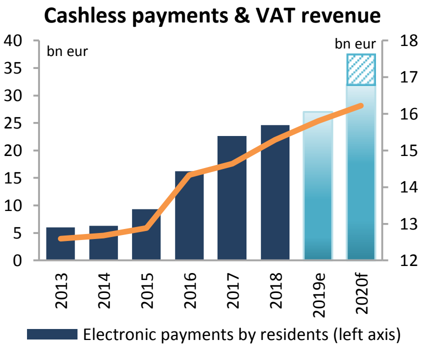
Efficiency increasing measures on expenditure and revenue

For 2020, the Budget also envisages the achievement of fiscal savings from interventions that increase tax and spending efficiency and compliance, which are expected to broadly offset the cost of the expansionary measures. These measures comprise mainly:

- A significant increase in the minimum threshold for cashless transactions for wage earners, pensioners, self-employed and those earning incomes from entrepreneurial activity and rents to 30% of their actual declared income (up to a maximum amount of €20,000 of cashless payments) from an estimated effective (on the

***Sources:** EL.STAT., Ministry of Finance, NBG estimates*

Increased tax efficiency from a further rise in cashless payments is a critical aspect of revenue performance



* *VAT historical data based on "Eurostat: Taxation trends in the EU" database*

***Sources**: ECB, Eurostat, MinFin & NBG estimates*

basis of reported incomes for tax purposes) threshold of 12% of imputed income currently. A tax penalty of 22% will apply to the difference from the minimum required amount in cases where the above limit is not reached. The measure is estimated to be translated into 0.3% of GDP (or €0.6 bn) of additional tax revenue. This measure attempts to bolster further the use of cashless payments following a cumulative increase of c. 300% in the past five years. This latter expansion underlies the solid performance of VAT revenue during this period, although efficiency improvements in other tax categories were rather limited. Assuming a constant share of the grey economy of 25%, unchanged efficiency of tax administration, and an average economy-wide effective tax rate of c. 18%, NBG Economic Analysis Division estimates that a net increase in cashless payments of almost €10 bn (about 35-40% higher than their estimated level in 2019) will be required to produce the targeted revenue of c. €0.5 bn. The required amount decreases substantially to around €5.0 bn (20% higher than in 2019), assuming a sharper reduction in cash use in activities where tax evasion is significantly higher than the economy-average, along with additional improvements in tax administration efficiency.

- Savings of 0.1% of GDP, through expenditure streamlining in General Government, on the basis of an updated spending review and other efficiency improvements (e.g. increased spending efficiency of the Manpower Employment Organization (OAED), energy saving measures in the public sector, cost savings from more extensive use of IT, more efficient management of the public sector's real estate property, etc.).
- Improvements in revenue-collection efficiency at a General Government level, with a prospective fiscal return of 0.1% of GDP (lowering fare evasion, optimization of local government's revenue collection methods, etc.).
- Contribution of about 0.1% of GDP of additional revenue from property-related taxation by streamlining imputed/objective property values especially in areas where significant downward biases have been identified, incorporation of non-registered property and hence broadening of the ENFIA tax base and more efficient monitoring of incomes generated through short-term rental platforms (Airbnb, etc.).

Fiscal savings in 2020 (mn euro)

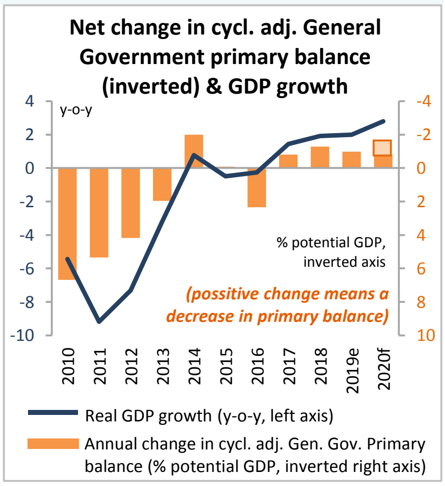
Fiscal measures	Amount	% of GDP
1. General Government efficiency	**307**	**0,15**
1.1 Review of Gen. Government revenue and expenditure	184	0,09
Increased revenue performance (e.g. decreasing fare evasion, optimization of local government's revenue collection methods, etc.)	*134*	*0,07*
Spending streamlining (e.g. streamlining of the Manpower Employment Organization (OAED), energy saving measures, IT usage)	*50*	*0,02*
1.2 Improving Gen. Government efficiency	123	0,06
2. Combating tax evasion and broadening the tax base through measures promoting cashless payments	**557**	**0,28**
3. Real estate	**202**	**0,10**
3.1 Increasing revenue and achieving a more efficient monitoring of incomes generated through short-term rental platforms (Airbnb)	60	0,03
3.2 Streamlining the objective/imputed property values and incorporating previously unregistered properties	142	0,07
4. Increased revenue from online betting	**73**	**0,04**
5. Accelerationing the resolution of pending tax disputes in administrative courts	**50**	**0,03**
Total savings	**1.189**	**0,60**

***Source**: Ministry of Finance / **Note**: Positive sign indicates a positive impact on fiscal outcome*

Against this backdrop, the primary surplus in the State Budget is envisaged to remain broadly unchanged, with lower primary spending (0.5% of GDP lower than in 2019, reflecting spending growth of 1.5% y-o-y, vis-a-vis a nominal GDP growth of 3.8% y-o-y), offsetting a contraction in total revenue of 0.6% of GDP (1.5% y-o-y). The latter reduction mainly reflects the net impact of the above-mentioned tax relief, in conjunction with offsetting improvements in tax collection efficiency and a prospective broadening of the real estate property and rental income taxes.

***Sources**: Ministry of Finance, ECB, Eurostat, NBG estimates*

Budget 2020 aims at providing a substantial cyclical stimulus with minor fiscal cost



General Government balance (% GDP)	2018	2019	2020	2019/18	2020/19
	% GDP			annual change as % GDP	
State primary balance (excl. PIB, ANFA & SMP)	2,1	3,1	3,0	1,0	-0,1
State net revenue (excl. PIB, ANFA & SMP)	*26,8*	*26,1*	*25,5*	*-0,7*	*-0,6*
State primary expenditure	*24,7*	*23,0*	*22,5*	*-1,7*	*-0,5*
Public Investment Budget (PIB) balance	-1,9	-1,3	-1,3	0,6	-0,1
Extrabudgetary funds & Hospitals balance	2,2	1,3	1,4	-0,9	0,1
Local Governments balance	0,4	0,1	0,1	-0,3	0,0
Social Security Funds balance	1,7	0,8	0,9	-0,9	0,1
Other adjustments	-0,5	-0,4	-0,4	0,1	0,0
General Government primary balance (ESA)	**4,11**	**3,65**	**3,67**	**-0,5**	**0,0**
Adjustments according to ESD	0,1	0,1	-0,1	0,0	-0,2
General Government primary balance (ESD)	**4,16**	**3,73**	**3,58**	**-0,4**	**-0,1**
Interest payments	3,3	3,0	2,6	-0,3	-0,4
General Government balance (ESD)	**0,9**	**0,7**	**1,0**	**-0,1**	**0,2**
ANFA & SMP	*0,2*	*0,5*	*0,1*	*0,3*	*-0,4*

ESD: Enhanced Surveillance Definition

Sources: Budget 2020 & NBG calculations

The above-described efficiency improvements, along with a permanent adjustment in Budget expenditure ceilings to more realistic levels (about 0.3% of GDP lower on an annual basis as referred to in the base scenario of the Draft budget for 2020 and remains relevant in the final fiscal strategy for the coming year), are expected to be translated into sustainable spending reduction in most categories of the State budget (namely compensation of employees, social benefits, transfers and purchases of goods and services), leading to combined fiscal savings of 0.8% of GDP on an annual basis in 2020. Moreover, the supportive impact from higher GDP growth on total expenditure share in GDP is estimated at c. 0.2%, assuming nominal GDP growth somewhat more conservative than the Budget 2020 forecast (i.e., 3.4% y-o-y instead of 3.8% y-o-y). These savings will be partly offset by a 0.5% of GDP increase in non-allocated expenditure (excluding PIB) related, *inter alia*, to a further enhancement of contingency reserves for financing higher-than-initially-anticipated funding needs of state entities, sub-categories social spending, as well as extraordinary obligations related to a potential final ruling by the Council of State on aspects of pension reforms implemented in previous years.

The slight improvement in the Social Security system's balance (0.1% of GDP) reflects a small increase of 0.2% y-o-y in revenue (which, however, decreases by 0.8% of GDP compared with 2019), in conjunction with a reduction in expenditure by 0.2% y-o-y (0.9% of GDP lower than in 2019). The latter reflects an underlying commitment by the Greek Government to sustain potential additional fiscal costs from pending decisions by the Council of State in the context of a forthcoming pension law. The net fiscal position of extrabudgetary funds and local governments is expected to remain broadly unchanged.

As regards the prospective impact of the fiscal strategy for 2020 on GDP growth, NBG estimates that the effective fiscal impulse will be significantly higher than the projected annual decline in the cyclically-adjusted primary surplus of 0.6% of potential GDP in 2020 (compared with an actual decline in the primary surplus of 0.15% of GDP). In fact, the expansionary measures related to corporates of 0.3% of GDP could add more than 0.4 pps to GDP growth in 2020, including indirect effects. Similarly, the potential stimulus in the real estate market from the new measures could significantly exceed the estimated fiscal cost. Assuming a small improvement in the international environment (which factors into business decisions), a stabilization of economic sentiment at its current level domestically and a steady improvement in liquidity conditions, the combined effect of fiscal stimulus on GDP growth could reach 1 pp in FY:2020.

***Sources**: EL.STAT., Ministry of Finance, IMF, NBG estimates*

Outline of key fiscal measures included in the Budget 2020 and the Tax Law (6/12/2019)

Corporations

- Reduction in the corporate income tax (CIT) rate from 28% to 24% for the fiscal year 2019.
- Decrease in the dividend withholding tax from 10% to 5% for dividends distributed from 2020 onwards.
- Recalculation of the advance income tax payment of legal entities to 95% of the amount assessed on the submitted corporate income tax return from 100% previously, solely and exclusively for the fiscal year 2018 (payable in Q4:2019).
- Reduction of the tax rate on business profits of agricultural cooperatives from 13% to 10%.
- Supporting Corporate Social Responsibility initiatives by: i) permitting deduction of related expenditure from business revenue; and ii) providing additional incentives to businesses to choose eco-friendly vehicles.
- Reduction in employers' social security contributions for full time employees by c. 0.5 pps (from H2:2020).

Households & sole proprietors/unincorporated partnerships

- Changes in the personal income tax (PIT) scale, including the introduction of a new tax bracket with a reduced introductory tax rate of 9% (for income up to €10,000) from 22% previously, for all tax payers (wage earners, self-employed, farmers and pensioners) and a reduction by 1 pp of all tax rates applying to income higher than €20,000, while the tax rate on income between €10,000-€20,000 remains unchanged at 22%.
- Higher effective tax-free threshold, with the tax deduction for wage earners and pensioners ranging from €777 (corresponding to a tax-free threshold of €8,636) for a single person to €1,340 for a married taxpayer with 4 children, which is incremented by €220 for each additional child and is granted in total for income up to €12,000, while it is reduced by €20 per €1,000 of extra income.
- The minimum threshold for cashless transactions for wage earners, pensioners, self-employed and those earning incomes from entrepreneurial activity and rents is raised to 30% of their actual declared income up to a maximum amount of €20,000 of cashless payments (which could be reduced to 20% for specific categories of tax payers under certain conditions). A tax penalty of 22% applies to the difference from the minimum required amount in cases where the above limit is not reached.
- Reduction of VAT rate of childcare articles and safety helmets from 24% to 13%.
- Reduction in social security contributions of full-time employees by c. 0.5 pps (from H2:2020).
- Introduction of a childbirth allowance of €2,000.

Modified debt settlement scheme

- More flexible debt settlement scheme for taxpayers (households and corporations) unable to meet their obligations to the State by extending the maximum number of instalments to 24 or 48 depending on the type of the tax (from the current 12 and 24 instalments) and increasing the incentives for staying in the scheme until the debt is fully settled.

Real estate market

- Suspension of VAT on buildings with permits issued after 1/1/2006, as well as of the tax on property capital gains, until 31/12/2022.
- Introduction of incentives for building upgrade (energy, functional and aesthetic), with a deduction – spread in equal annual installments over a 4-year period – of 40% of the relevant expenses amount (up to €16,000)

Outline of key fiscal measures included in the Budget 2020 and the Tax Law (6/12/2019) (continued)

Tax incentives for investment entities and non-residents

- Exemption from the income tax and solidarity contribution on interest income from domestically listed corporate bonds for persons and corporates who are not tax residents of Greece.
- Lower taxation – back to the pre-2016 level – on real estate funds, mutual funds and other investment entities such as Portfolio Investment Companies (P.I.C.) and R.E.I.C., based on their total net assets as follows:

  Money market funds: 10% of the ECB reference rate plus 0%.
  Bond funds: 10% of the ECB reference rate plus 0.25%.
  Mixed funds: 10% of the ECB reference rate plus 0.50%.
  Equity funds: 10% of the ECB reference rate plus 1%.
  P.I.C.: 10% of the ECB reference rate plus 1%.
  R.E.I.C. and Real Estate funds: 10% of the ECB reference rate plus 1%.

Introduction of a competitive "non-dom" regime

Providing incentives to non-residents for transferring their tax residency to Greece (15-year duration), under certain conditions:

- They have not been tax residents in Greece for 7 out of the preceding 8 years.
- They are required to invest at least €500,000 in Greek assets (real estate, stocks or bonds) within a 3-year period.

They will pay a flat tax of €100,000 per fiscal year, increasing by €20,000 for each family member, irrespective of their income earned abroad.

Expansionary fiscal measures in 2020 and their valuation (mn euro)

Fiscal measures	Amount	% of GDP
Family & Low birth rate	**-135**	**-0,07**
Allowance of €2,000 for each child birth	-123	-0,06
Reduction of VAT rate of childcare articles and safety helmets from 24% to 13%	-12	-0,01
Individuals	**-404**	**-0,20**
Reduction in the introductory PIT rate to 9% from 22% (for income up to €10,000) and increase in the tax-free threshold per child	-281	-0,14
Reduction in social security contributions by c. 1 pp for full-time employees (both in the private and the public sector, refers to H2:2020)	-123	-0,06
Corporations	**-616**	**-0,31**
Reduction in the CIT rate from 28% to 24%	-541	-0,27
Reduction in the dividend withholding tax from 10% to 5%	-75	-0,04
Real estate	**-26**	**-0,01**
Suspension of VAT on new buildings for the next 3 years	-26	-0,01
Suspension of the tax on property capital gains for the next 3 years	0	0,00
Partial reimbursement of expenses for building upgrade and renovations	0	0,00
Total	**-1.181**	**-0,60**

Source: Ministry of Finance / Note: Negative sign indicates a negative impact on fiscal outcome

Greek Economy: Selected Indicators

	2017					2018					2019					2019e	2020f
	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Q4	year aver.	Q1	Q2	Q3	Most recent			
Real economy (y-o-y period average, constant prices)																	
GDP	0,0	1,7	1,9	2,2	1,4	2,7	1,4	2,0	1,6	1,9	1,4	2,8	2,3	Q3:19	2,3	2,2	2,5
Domestic demand	3,3	0,9	1,3	1,5	1,8	-2,7	-0,6	5,1	-0,9	0,2	3,2	2,1	-1,9	Q3:19	-1,9	1,3	2,5
Final Consumption	0,7	1,2	0,6	0,1	0,7	1,0	-0,4	0,2	0,4	0,3	-0,1	1,7	0,5	Q3:19	0,5	0,9	1,5
Gross fixed capital formation	7,7	-8,9	26,3	12,7	9,4	-8,9	18,8	-22,6	-26,4	-12,0	8,1	-6,1	2,0	Q3:19	2,0	3,5	10,9
Exports of goods and services	6,1	9,2	6,7	5,5	6,9	8,8	9,3	6,4	10,2	8,7	4,5	5,8	9,5	Q3:19	9,5	6,1	4,5
Imports of goods and services	16,1	5,8	4,8	3,2	7,4	-7,5	2,8	15,6	2,2	3,0	9,8	3,7	-2,9	Q3:19	-2,9	3,4	4,6
Coincident and leading indicators (period average)																	
Retail sales volume (y-o-y)	2,8	2,1	0,8	-0,5	1,2	0,6	2,4	3,0	-0,4	1,4	-0,5	-0,8	…	Sep	5,1	…	…
Retail confidence (15-yr. average: -2,9)	5,8	0,4	-1,6	1,3	1,5	2,3	6,5	18,5	14,9	10,6	14,6	3,3	23,1	Nov	25,0	…	…
Car registrations (y-o-y)	37,8	3,4	35,8	24,5	22,2	37,6	28,3	20,8	14,5	25,8	4,9	13,1	23,7	Sep	24,3	…	…
Consumer confidence (15-yr. average: -47,6)	-67,1	-65,1	-54,1	-49,1	-58,9	-49,8	-48,7	-44,7	-32,6	-44,0	-31,1	-29,4	-11,7	Nov	-6,8	…	…
Industrial production (y-o-y)	8,2	3,5	3,1	1,1	3,9	-0,1	1,8	2,2	2,5	1,6	1,7	0,9	-0,2	Sep	1,2	…	…
Manufacturing production (y-o-y)	4,7	3,3	1,7	2,0	2,9	2,4	1,8	3,6	3,3	2,8	1,9	2,8	1,3	Sep	4,5	…	…
Capacity Utilization (15-yr. average: 70,3)	68,2	68,7	71,1	70,1	69,5	71,4	70,9	70,2	71,0	70,9	70,4	71,6	72,1	Oct	71,9	…	…
Industrial confidence (15-yr. average: -9,1)	-5,6	-7,8	-2,4	-2,8	-4,6	0,7	-1,4	4,0	-3,9	-0,2	-2,7	-0,6	1,1	Nov	1,4	…	…
PMI Manufacturing (base=50)	47,0	49,4	51,8	52,5	50,2	55,4	53,5	53,7	53,6	54,1	54,2	54,4	54,4	Nov	54,1	…	…
Construction permits (y-o-y)	16,2	31,2	5,9	27,1	19,3	1,8	24,3	20,0	36,3	21,5	-18,8	2,4	…	Aug	37,8	…	…
Construction confidence (15-yr. average: -38,0)	-51,6	-58,8	-41,9	-54,1	-51,6	-50,2	-47,2	-48,5	-49,2	-48,8	-53,5	-52,9	-52,2	Nov	-51,7	…	…
PIB Disbursements (y-o-y)	-36,9	-24,9	-37,0	15,7	-5,4	-4,9	12,2	-17,6	9,4	4,8	56,6	52,6	22,2	Oct	-42,2	…	…
Stock of finished goods (15-yr. average: 12,4)	10,7	11,8	12,7	10,3	11,4	6,1	3,8	6,4	9,8	6,5	8,6	13,5	12,5	Nov	11,2	…	…
External sector (period average)																	
Current account balance (% of GDP)	-1,7	-0,5	2,2	-1,9	-1,9	-1,7	-0,8	1,7	-2,1	-2,8	-2,0	-0,2	2,1	Sep	0,5	-2,1	…
Current account balance (EUR mn)	-3121	-852	4015	-3449	-3406	-3092	-1475	3210	-3875	-5232	-3736	-322	4034	Sep	887	-3928	…
Services balance, net (EUR mn)	1340	4425	9974	2305	18044	1083	4842	10472	2907	19304	1496	5267	11595	Sep	3117	21486	…
Primary Income Balance, net (EUR mn)	656	-530	-733	-450	-1057	749	-774	-1152	-549	-1726	795	-557	-1303	Sep	-43	-1574	…
Merchandise exports – non-oil (y-o-y cum.)	9,1	10,1	8,7	9,2	9,2	12,2	12,6	11,9	10,9	10,9	4,3	4,1	4,6	Sep	4,6	…	…
Merchandise imports – non-oil (y-o-y cum.)	10,2	9,0	8,5	8,5	8,5	7,1	8,2	9,3	9,4	9,4	6,2	5,5	5,3	Sep	5,3	…	…
Gross tourism revenue (y-o-y)	-8,5	9,4	13,2	13,5	11,4	13,8	18,2	4,7	25,5	10,5	37,7	12,8	14,6	Sep	16,3	…	…
International tourist arrivals (y-o-y)	-1,8	9,0	12,2	5,9	9,7	12,8	20,7	5,8	13,8	10,8	7,8	-2,5	6,3	Sep	5,0	…	…
Employment																	
Unemployment rate	22,6	21,6	20,9	21,0	21,5	20,4	19,5	18,9	18,6	19,3	18,4	17,3	…	Aug	16,7	17,2	15,7
Employment growth (y-o-y)	1,5	2,4	2,3	2,4	2,2	1,7	1,7	1,9	2,5	2,0	2,5	2,4	…	Aug	1,8	2,0	1,6
Prices (y-o-y period average)																	
Headline inflation	1,4	1,3	1,0	0,8	1,1	-0,1	0,5	1,0	1,1	0,6	0,7	0,3	-0,1	Oct	-0,7	0,2	1,1
Core inflation	-0,4	0,2	0,4	0,4	0,2	0,2	0,1	-0,1	0,2	0,1	0,2	-0,1	0,0	Oct	0,0	0,0	1,5
Producer prices excl.energy	0,4	0,3	0,6	0,5	0,5	0,2	0,1	-0,1	0,3	0,1	0,3	0,4	0,4	Sep	0,3	…	…
Real estate prices																	
Residential house prices (y-o-y)	-1,9	-1,1	-0,7	-0,4	-1,0	0,5	1,3	2,2	2,9	1,7	4,9	7,7	…	Q2:19	7,7	6,4	…
Office prices (y-o-y, bi-annual data)[1]	…	-0,3	…	3,9	1,8	…	7,7	…	6,7	7,2	…	5,4	…	H1:19	5,4	…	…
Retail prices (y-o-y, bi-annual data)[1]	…	1,3	…	2,2	1,7	…	3,3	…	5,3	4,3	…	7,3	…	H1:19	7,3	…	…
Fiscal policy																	
Gov. balance (% of GDP, Enhanced Surveillance Fram.)[2]	…	…	…	…	1,1	…	…	…	…	0,9	…	…	…	…	…	0,7	1,0
Government debt (% of GDP)[2]	…	…	…	…	176,2	…	…	…	…	181,2	…	…	…	…	…	173,3	167,0
Monetary sector (y-o-y, end of period)																	
Deposits of domestic private sector	3,1	3,4	4,6	4,7	4,7	6,3	7,5	7,4	6,3	6,3	5,5	6,0	5,7	Oct	6,4	…	…
Loans to private sector (incl. sec. & bond loans)	-1,3	-1,3	-0,8	-0,8	-0,8	-1,0	-1,2	-1,2	-1,1	-1,1	-0,6	-0,2	-0,5	Oct	-0,2	…	…
Mortgage loans (including securitized loans)	-3,3	-3,2	-2,9	-3,0	-3,0	-3,0	-3,0	-2,9	-2,8	-2,8	-2,9	-3,1	-3,3	Oct	-3,3	…	…
Consumer credit (including securitized loans)	-0,7	-0,7	-0,5	-0,5	-0,5	-0,6	-0,6	-0,4	-0,8	-0,8	-0,7	-0,9	-1,1	Oct	-1,3	…	…
Interest rates (period average)																	
10-year government bond yield	7,2	6,1	5,5	5,1	6,0	4,1	4,2	4,1	4,4	4,2	4,0	3,2	1,9	Nov	1,4	…	…
Spread between 10 year and bunds (bps)	689	577	502	469	559	346	376	370	400	373	382	327	239	Nov	169	…	…
Exchange rates (period average)																	
USD/euro	1,07	1,1	1,18	1,18	1,13	1,23	1,19	1,16	1,14	1,18	1,14	1,12	1,11	Nov	1,10	…	…
Stock market																	
ASE General index (aop)	644	755	818	750	742	833	796	729	631	746	667	784	859	Nov	882	…	…
ASE Banks (aop)	780	947	1018	760	876	902	900	744	477	754	466	676	758	Nov	879	…	…

[1] Quarterly figures correspond to bi-annual data for office and retail prices

[2] Forecasts according to Budget for 2020

Sources: BoG, NSSG, MoF, ASE, Bloomberg and NBG estimates unless otherwise indicated

NATIONAL BANK
OF GREECE

Main contributors *(in alphabetical order): E. Alevizopoulou, E. Balikou, A. Gouveli, E. Kyrkopoulou, N. Magginas, G. Murphy, P. Nikolitsa, G. Theodoropoulou.*

The analysis is based on data up to December 9, 2019, unless otherwise indicated