



**THESSALONIKI  
SUMMIT  
2017**



# **Institutions, Public Debt and Growth**

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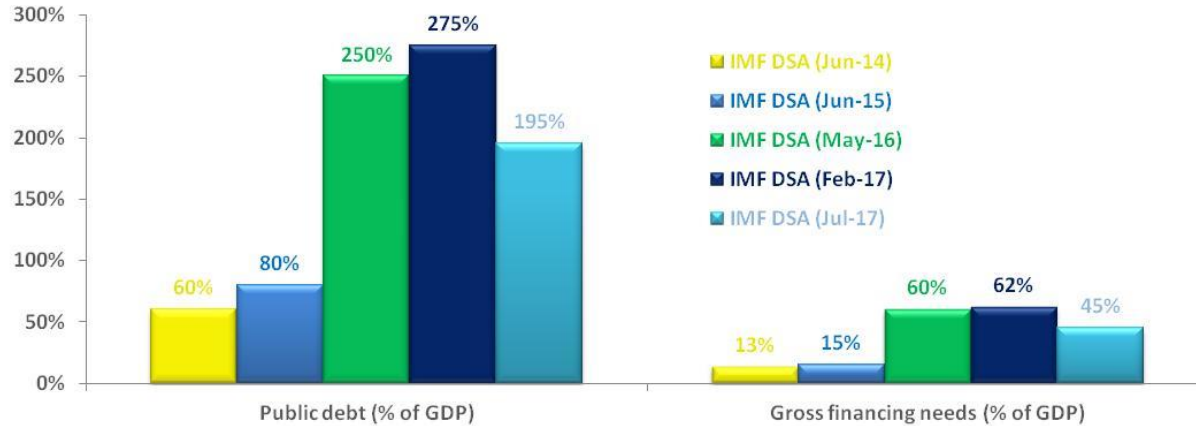
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**Former Alternate Minister of Finance**

**October 2017**

# Debt and gross financing needs to GDP ratios

## Nominal debt and gross financing needs projections for 2060



Source: IMF

Figure 4. Baseline Scenario for the DSA, 2013–2065

i. Without Official (Concessional) Financing

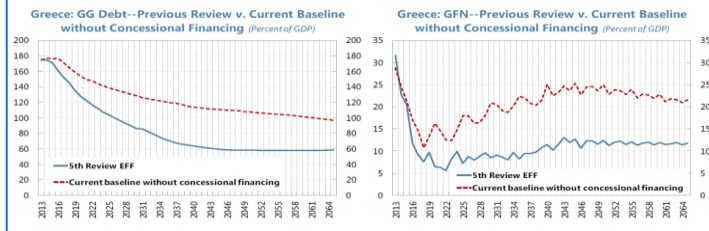


Figure 1. Baseline Scenario, 2014–2060

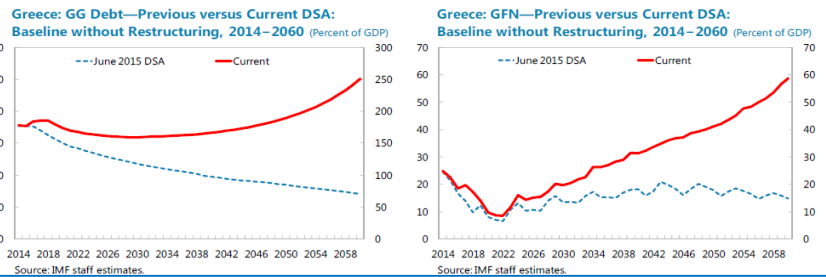


Figure 1. Debt Sustainability, Baseline Scenario, 2014–2060

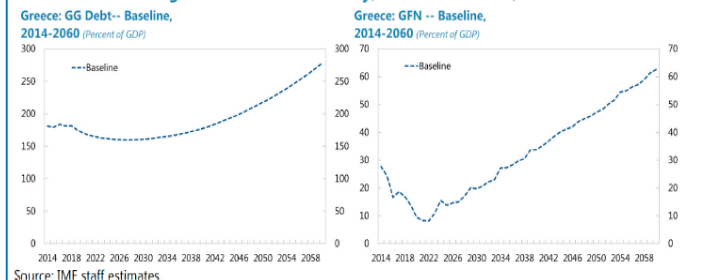
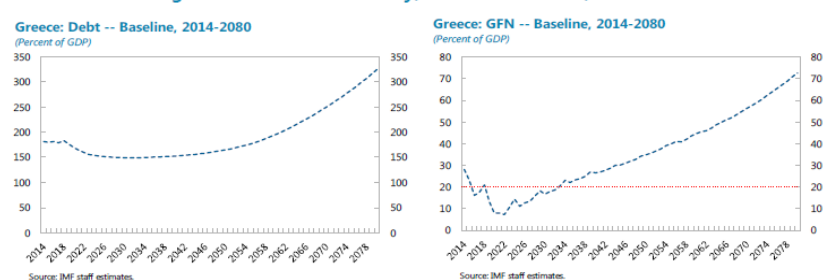
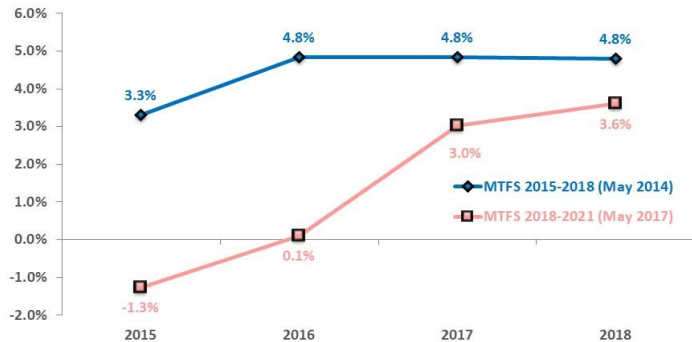


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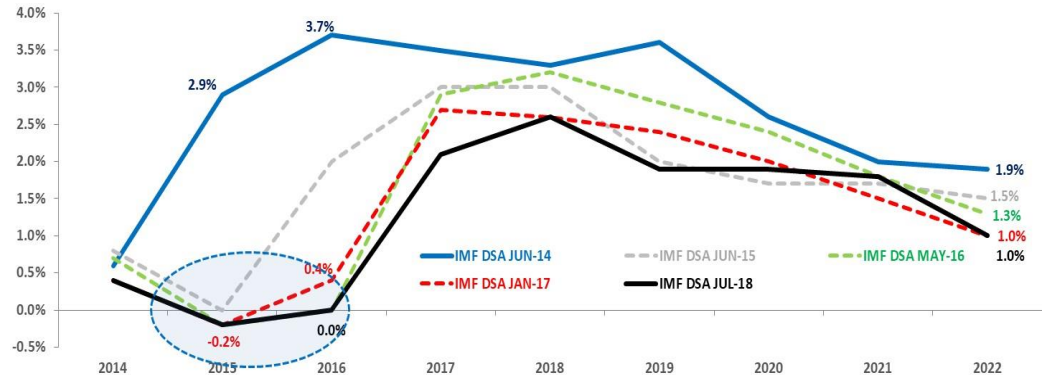
# GDP growth rate dynamics deteriorated

**GDP % change  
(y-o-y, current prices)**



Source: Ministry of Finance, AMECO

**GDP % change  
(y-o-y, constant prices, 2010)**



Source: IMF

- According to IMF reports, medium-to-long-term GDP growth rate was forecast to **1,9% in June 2014**, and was revised downwards to **1% in July 2017**.
- The comparison of nominal GDP growth rate forecasts between MTFS 2015-2018 and MTFS 2018-2021 also confirms the deterioration.

**The significant downward revision of growth rates forecasts, burdens cumulatively public debt sustainability**

## Our Plan (1)

**Reduce long-term fiscal targets  
by implementing structural reforms,  
thus achieving higher growth rates**

- Cross-country evidence shows that a 3.5% of GDP primary surplus is difficult to achieve and sustain in the long-run, especially after long recessions and when faced with high structural unemployment.

<b>Episodes of Sustainable Primary Surpluses</b>		
<b>Threshold (percent of GDP)</b>	<b>Country</b>	<b>Period</b>
4	Congo, Rep.	2003-2012
	Norway	1964-2014
3.5	Mexico	1983-1992
3	Belgium	1994-2004
	Finland	1975-1990
2.5	Chile	1987-1997
2	Brazil	1975-1985
	Canada	1964-1974
	Finland	1998-2008
1.5	Brazil	2001-2013
	Canada	1996-2007
	Denmark	1997-2008
	Russia	1999-2008

Sources: IMF World Economic Outlook database; and Mauro et al. (2013).  
Note: Sustainable primary fiscal surpluses are defined as a primary surplus larger than the threshold for longer than 10 consecutive years.

# Our Plan (2)

Table 3.8. Greece: VAT Revenue, VTTL, Composition of VTTL, and VAT Gap, 2011-2015 (EUR million)

Greece	2011	2012	2013	2014	2015
<b>VTTL</b>	<b>22677</b>	<b>19192</b>	<b>18751</b>	<b>16966</b>	<b>17964</b>
o/w liability on household final consumption	16125	14017	13498	12381	13199
o/w liability on government and NPISH final consumption	876	819	582	431	567
o/w liability on intermediate consumption	2001	1886	1722	1598	1676
o/w liability on GFCF	3307	2220	2682	2312	2256
o/w net adjustments	368	250	267	244	266
<b>VAT revenue</b>	<b>15021</b>	<b>13713</b>	<b>12593</b>	<b>12676</b>	<b>12885</b>

<b>VAT GAP</b>	<b>7656</b>	<b>5479</b>	<b>6158</b>	<b>4290</b>	<b>5079</b>
<b>VAT GAP as a percent of VTTL</b>	<b>34%</b>	<b>29%</b>	<b>33%</b>	<b>25%</b>	<b>28%</b>

VAT GAP change since 2011

-6 pp



### Highlights

- In 2015, Greek real GDP continued its contraction, having fallen almost 10 percent since 2011.
- In July 2015, several VAT rates were raised as a measure to increase revenue. The super reduced rate for accommodation was raised to the reduced level, and the rates on several food products, fertilisers, and other goods were raised to the full level. Also, the mainland rate was set on five islands that previously had 30 percent lower rates.
- These two opposing factors resulted in EUR 1 billion of additional VTTL. However, actual revenues increased by only EUR 200 million. Hence, the VAT Gap increased by 3 percentage points, from 25 to 28 percent.

## Our Plan (3)

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### Accelerate structural reforms

- Goods and services' markets
  - OECD Toolkit III – 5 sectors of the economy e.g. wholesale trade, construction, manufacturing.
  - Reforms on competition (open regulated professions), investment licensing and administrative burden.
  - Simplification of licensing procedures.
  - Improvement of spatial and urban planning.
- Public administration
  - Qualitative reforms and depoliticisation of the administration.
  - Enhance outreach in primary and services sector.
- Justice and anti-corruption
  - Improve Court operation and management.
- Energy sector
- Logistics law and strategy

## Our Plan (4)

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### Enhance the liquidity of the economy

- Absorb European funds
- Repay arrears
- Clean and strengthen bank balance sheets.

#### Asset side

- Addressing NPLs with the help of private investors and management.
  - Enhance the efficiency of Courts dealing with household insolvency cases.
  - Enable out-of-court settlements.
  - Reform the corporate insolvency law.
  - Improve the conditions to set up a secondary market for performing and non-performing loans.

#### Liability side

- Improve funding conditions.
  - Include GGBs in the quantitative easing program.
    - This will help market access at affordable cost (should have taken place since March 2015).
    - Conclusion of the 3<sup>rd</sup> review is a prerequisite.
  - Return of deposits (political credibility is a precondition).
  - Reduce cost of funding.