

**Hellenic Republic**

**Ministry of Finance  
General Accounting Office**

**GOVERNMENT**

**BUDGET**

**REPORT**

**2000**

**Executive**

**Summary**

**November 1999**

## The budget

The budget contains:

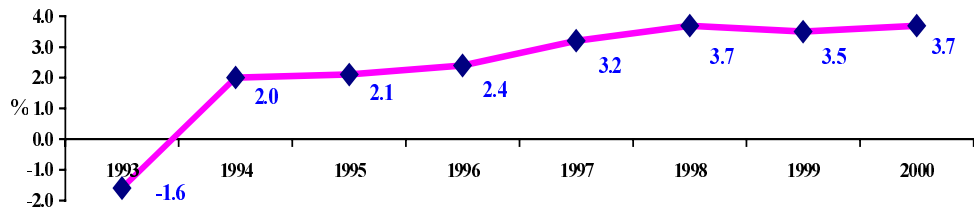
*The effort undertaken by the Greek government to strengthen the progress of the economy and meet the convergence criteria for joining the euro in 1.1.2001 has produced remarkable results. The fiscal convergence criteria are satisfied for a second year in 1999, long-term interest rates differ from EU levels less than the ceiling of 2%, and inflation is expected to fall within the target margin by the end of the year.*

- (a) an account of the policy objectives along with the underlying economic projections;
- (b) an account of the revenue side and a description of the tax changes;
- (c) the budget appropriations per ministry, activity, and institution, as well as the public investment program;
- (d) developments in public debt management and borrowing schedule;
- (e) the financial results and business plans of public enterprises;
- (f) an account of subsidies and payments to social security, health and welfare systems;
- (g) evaluation of public expenditure by activity; and
- (h) an account of transfers and subsidies to local government.

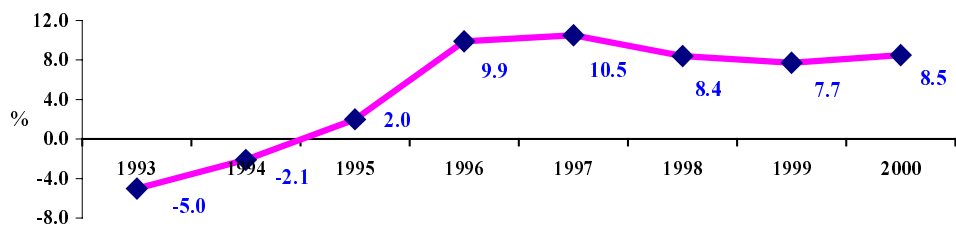
Finally, it contains certain budget elements in euro, as a pilot scheme for transition of budget denominations from drachma to the single currency.

**GROWTH**

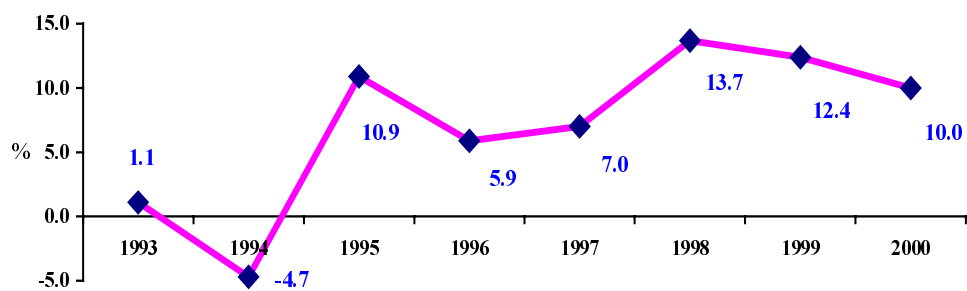
**Gross domestic product**



**Private investment**



**Public investment**



**Table 1 Fiscal developments 1997-2000  
(GRD bn)**

	1997	1998	98/97 %	1999	99/98 %	2000	2000/99 %
Indirect taxes	4,665.6	5,034.2	7.9	5,361.4	6.5	5,693.8	6.2
Direct taxes	2,451.5	2,941.8	20.0	3,088.9	5.0	3,197.0	3.5
Social security contributions	4,124.3	4,536.7	10.0	4,886.1	7.7	5,262.3	7.7
Other current receipts	1,466.0	1,511.0	3.1	1,607.0	6.4	1,646.0	2.4
<b>Total revenue (I)</b>	<b>12,707.4</b>	<b>14,023.7</b>	<b>10.4</b>	<b>14,943.4</b>	<b>6.6</b>	<b>15,799.1</b>	<b>5.7</b>
Current transfers	5,306.0	5,862.5	10.5	6,188.2	5.6	6,582.0	6.4
To business	159.9	155.0		105.0		100.0	
To households	5,107.0	5,607.5	9.8	5,983.2		6,402.0	7.0
To the rest of the world	-7.5	60.0		40.0		60.0	
Other	46.6	40.0		20.0		20.0	
Actual interest payments	3,171.0	3,200.0	0.9	3,280.0	2.5	3,190.0	-2.7
Government purchases of goods and services	4,838.0	5,215.2	7.8	5,350.2	3.4	5,635.2	4.5
Compensation of employees	3,613.5	3,837.5	6.2	3,958.7	4.2	4,218.6	5.5
Goods	1,224.5	1,377.7	12.5	1,391.5	1.0	1,416.5	1.8
<b>Total current expenditure (II)</b>	<b>13,315.0</b>	<b>14,277.7</b>	<b>7.2</b>	<b>14,818.4</b>	<b>3.8</b>	<b>15,407.2</b>	<b>4.0</b>
Gross savings (III: I-II)	-607.6	-254.0		125.0		391.9	
as % of GDP	-1.9	-0.7		0.2		1.0	
Net capital transfers (IV)	-430.0	-670.0		-800.0		-780.0	
Gross capital formation (V)	1,125.4	1,315.0	16.8	1,505.0	14.4	1,647.0	9.4
<b>Net lending (+) borrowing (-) of general government (III-IV-V)</b>	<b>-1,303.0</b>	<b>-899.0</b>		<b>-580.0</b>		<b>-475.1</b>	
as % of GDP	<b>-4.0</b>	<b>-2.5</b>		<b>-1.5</b>		<b>-1.2</b>	
<b>Primary surplus as % of GDP</b>	<b>5.7</b>	<b>6.4</b>		<b>7.0</b>		<b>6.7</b>	
<b>General government debt as % of GDP</b>	<b>109.4</b>	<b>106.0</b>		<b>104.9</b>		<b>103.9</b>	

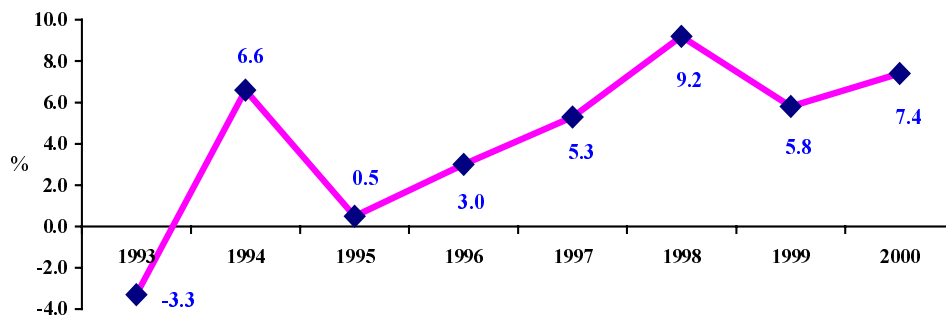
### Fiscal developments and convergence in 1999

Greece has satisfied in 1999 the fiscal interest rate and exchange rate criteria for joining the European Economic and Monetary Union (EMU) while the satisfaction of the inflation criterion is expected by the end of the year. The implementation of the 1999 budget resulted in smaller deficit and debt levels than those initially envisaged. The general government deficit is expected to fall to 1.5% of GDP, compared to an initial budget target of 1.9%.

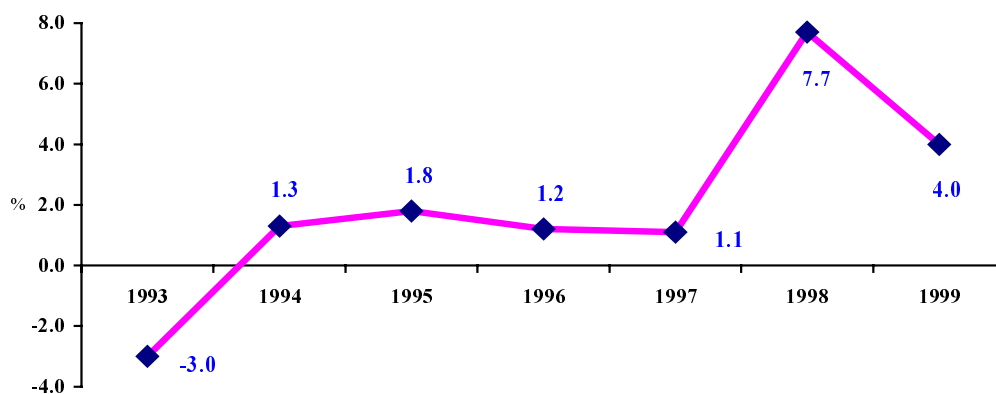
Similarly, the general government debt will be constrained at 104.9% by the end of 1999 compared to an initial target of 105.3%. Inflation rate is expected to fall to an annual average 2.4%, with a further substantial decline anticipated in the first few months of the year 2000.

These results are due both to the increase in revenue and the constraints in the wider public sector expenditure. Specifically, budget revenues exhibit a growth rate of 9% compared to 1998, despite the decrease in withholding tax rates and other tax relief measures that were announced and implemented in the autumn 1999.

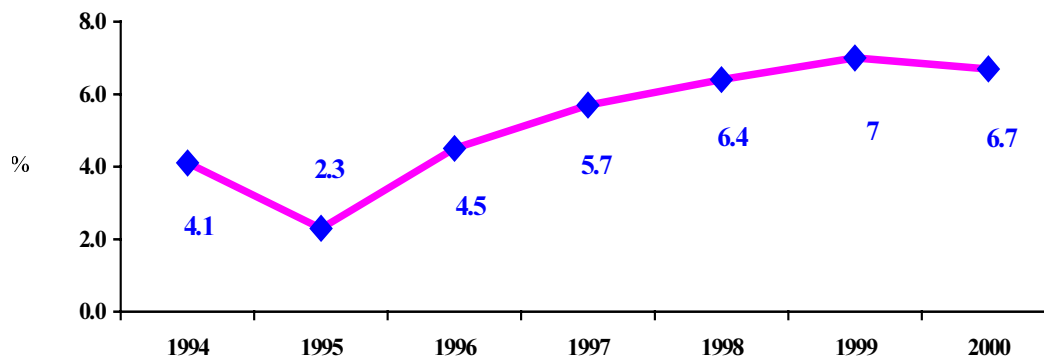
**Exports of goods and services  
(% growth in constant prices)**



**Industrial production index  
(% growth in constant prices)**

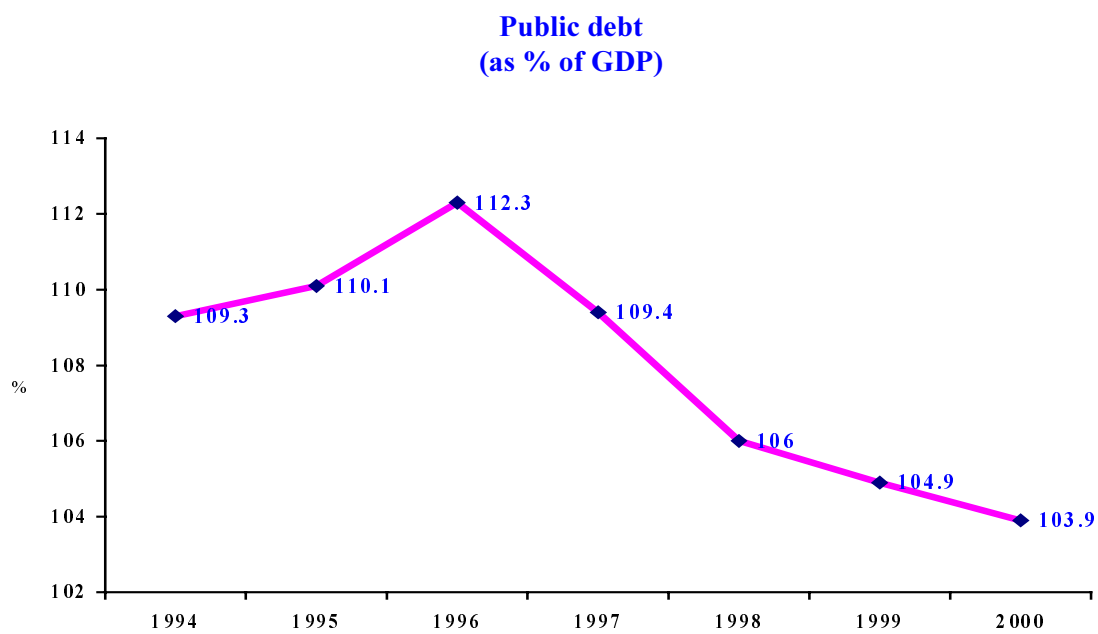
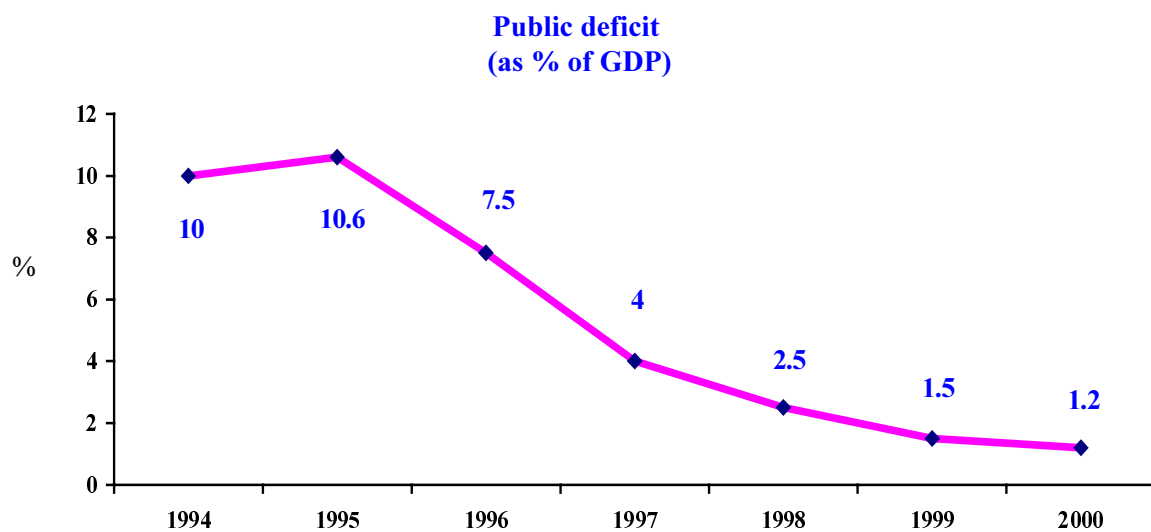


**Primary surplus  
(as % of GDP)**



**Table 2 Ordinary budget revenues  
(GRD bn)**

	1998	1999		2000	d% 1999 Est. budget	Change %	
	Outcome	Budgeted	Estimates	Budgeted		99/98	2000/99
<b>Direct taxes (I)</b>	<b>3,591</b>	<b>3,474</b>	<b>3,695</b>	<b>3,690</b>	<b>6.4</b>	<b>2.9</b>	<b>-0.1</b>
<b>Income tax</b>	<b>3,055</b>	<b>2,895</b>	<b>3,106</b>	<b>2,976</b>	<b>7.3</b>	<b>1.7</b>	<b>-4.2</b>
On households	1,587	1,441	1,577	1,500	9.4	-0.6	-4.9
On corporations	1,018	968	1,100	1,051	13.6	8.0	-4.5
Other	449	486	429	425	-11.8	-4.6	-0.8
<b>Real property tax</b>	<b>133</b>	<b>130</b>	<b>130</b>	<b>148</b>	<b>-0.4</b>	<b>-2.5</b>	<b>14.2</b>
<b>Tax arrears</b>	<b>149</b>	<b>185</b>	<b>201</b>	<b>285</b>	<b>8.9</b>	<b>35.0</b>	<b>41.4</b>
<b>Other direct taxes</b>	<b>252</b>	<b>261</b>	<b>255</b>	<b>278</b>	<b>-2.2</b>	<b>1.2</b>	<b>8.9</b>
<b>Indirect taxes (II)</b>	<b>5,248</b>	<b>5,614</b>	<b>5,736</b>	<b>6,246</b>	<b>2.2</b>	<b>9.3</b>	<b>8.9</b>
<b>Transaction taxes</b>	<b>3,251</b>	<b>3,550</b>	<b>3,649</b>	<b>4,225</b>	<b>2.8</b>	<b>12.2</b>	<b>15.8</b>
VAT on domestic and EU	2,397	2,640	2,593	2,821	-1.8	8.2	8.8
Other transaction taxes	527	550	713	1,025	29.5	35.1	43.8
Capital transfers	173	174	321	607	84.0	85.7	89.1
Stamp duty	292	300	318	335	6.0	8.7	5.3
Tax on Bank transactions	46	50	55	62	10.0	18.2	12.7
Others	16	26	19	21	-26.9	20.0	10.5
VAT on imports	326	360	343	379	-4.7	5.1	10.5
<b>Consumption taxes</b>	<b>1,856</b>	<b>1,894</b>	<b>1,897</b>	<b>1,805</b>	<b>0.2</b>	<b>2.2</b>	<b>-4.8</b>
Turnover tax	45	50	50	55	0.0	11.0	10.0
On vehicles	176	105	245	151	133.5	39.3	-38.5
On fuels	847	886	828	809	-6.5	-2.2	-2.3
Other consumption taxes	592	612	612	620	0.0	3.3	1.4
(On tobacco products)	513	525	525	530	0.0	2.4	1.0
(On alcohol)	75	86	86	90	-0.9	13.9	4.6
Road fees and tolls	91	110	110	112	0.0	21.1	1.8
Others	105	131	51	57	-60.7	-50.8	11.7
<b>Tax arrears</b>	<b>28</b>	<b>60</b>	<b>65</b>	<b>85</b>	<b>9.2</b>	<b>131.6</b>	<b>29.8</b>
<b>Other indirect taxes</b>	<b>47</b>	<b>53</b>	<b>53</b>	<b>52</b>	<b>0</b>	<b>12.7</b>	<b>-1.9</b>
<b>Duties and special contributions</b>	<b>66</b>	<b>57</b>	<b>72</b>	<b>78</b>	<b>27.6</b>	<b>9.9</b>	<b>8.0</b>
for EU	64	55	70	76	28.2	9.8	7.8
<b>Total tax revenue (I+II)</b>	<b>8,840</b>	<b>9,085</b>	<b>9,432</b>	<b>9,936</b>	<b>3.8</b>	<b>6.7</b>	<b>5.3</b>
<b>EU transfers (III)</b>	<b>34</b>	<b>59</b>	<b>63</b>	<b>74</b>	<b>6.7</b>	<b>86.7</b>	<b>16.5</b>
<b>Other non-tax revenues (IV)</b>	<b>625</b>	<b>882</b>	<b>855</b>	<b>945</b>	<b>-3.1</b>	<b>36.9</b>	<b>10.5</b>
<b>Total non tax revenues (III+IV)</b>	<b>659</b>	<b>941</b>	<b>918</b>	<b>1,019</b>	<b>-2.4</b>	<b>39.4</b>	<b>10.9</b>
<b>Total revenue</b>	<b>9,498</b>	<b>10,030</b>	<b>10,350</b>	<b>10,955</b>	<b>3.2</b>	<b>9.0</b>	<b>5.8</b>



The above strong growth in budget revenue is the result of the continuous development of the economy, the growth of the Athens Stock Exchange and decreases in tax evasion. Furthermore, budget expenditure exhibits only marginal overruns in certain expenditure areas.

### **Prospects of public finances for the year 2000**

Macroeconomic developments are expected to exercise a positive impact upon the budget in 2000. Real GDP growth is forecasted to increase by a 3.5% in 1999 (among the highest growth rates in EU). A further increase to 3.7% is also expected for the year 2000. The entry of the country into the EMU will minimise the exchange rate risk and will allow lower interest rates that will obviously alleviate the budget and reduce the volume of the outstanding debt.

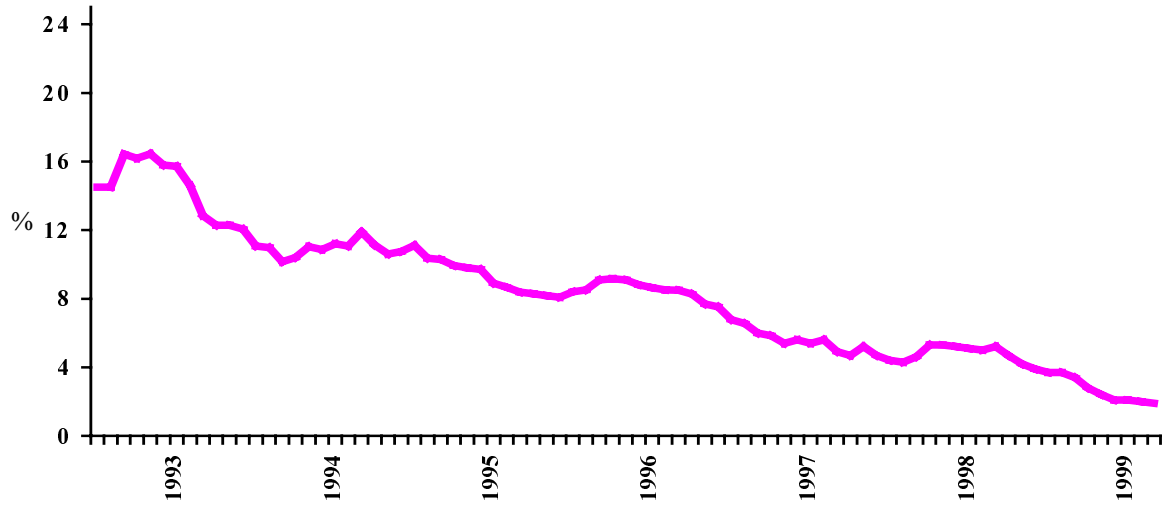
### **The 2000 budget**

The targets of the budget for 2000 are:

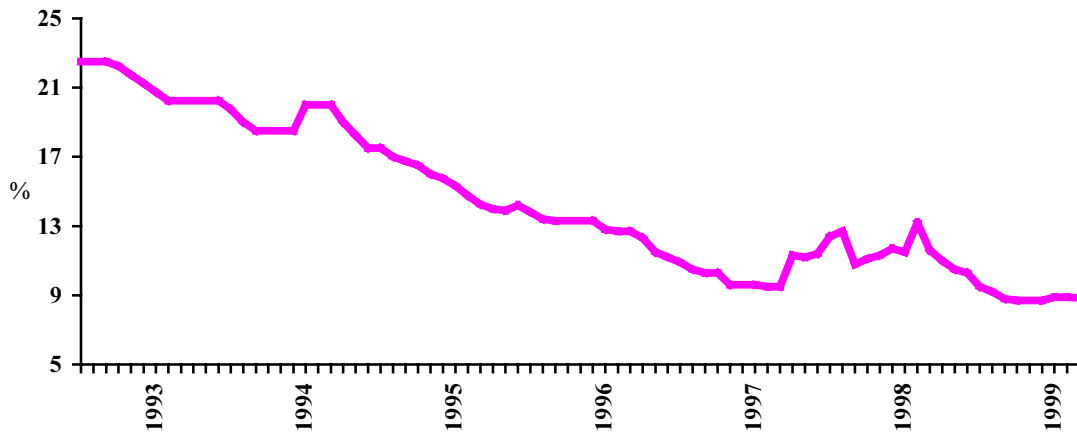
- (a) the maintenance of the general government primary surplus at the same level as in 1999 (6.8% of GDP);
- (b) the further reduction of the general government deficit to 1.2% of GDP from 1.5% in 1999;

- (c) a central government primary surplus at 4.9% of GDP and a deficit of 3.1% of GDP;
- (d) the maintenance of the inflation rate within the range dictated by the relevant Maastricht criterion for entry of the country into the EMU;
- (e) the further reduction of interest rates;
- (f) further structural changes in the public sector through privatisation, decrease of public ownership in public sector organisations and other measures;
- (g) the implementation of certain social measures targeting to relieve low income population groups.

**Inflation rate (12-month)**



**Treasury bills interest rates (%)**



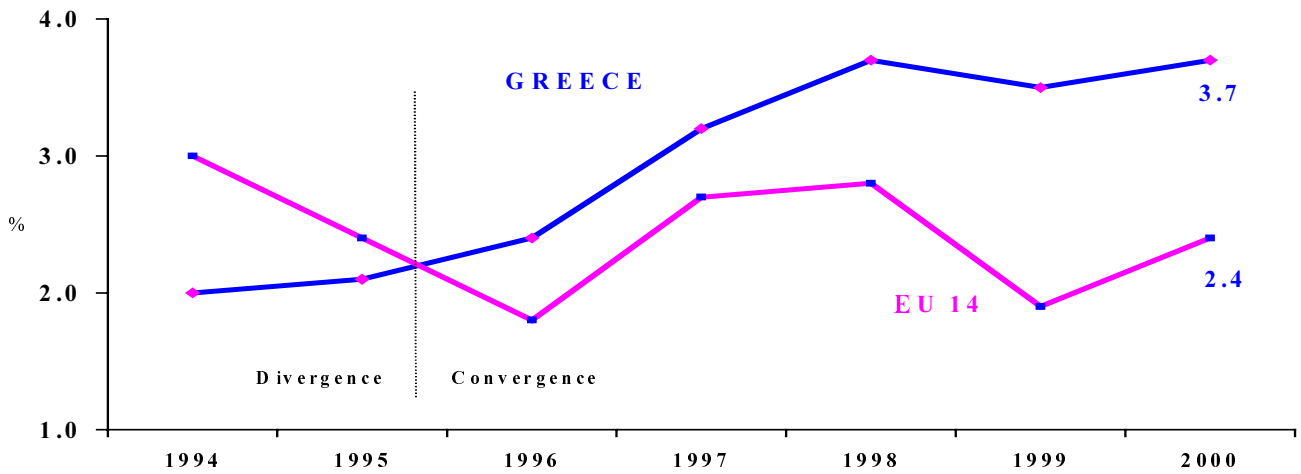
**Table 3 Central government budget  
(GRD bn)**

	1998	1999		2000	Change %	
	Outcome	Budgeted	Estimates	Budgeted	99/98	2000/99
<b>Revenues</b>	<b>10,413</b>	<b>11,090</b>	<b>11,410</b>	<b>12,115</b>	<b>9.6</b>	<b>6.2</b>
Ordinary budget	9,498	10,030	10,350	10,955	9.0	5.8
Returned resources (-)	1,011	1,081	1,092	1,138	8.1	4.2
Net revenue ordinary budget	8,488	8,949	9,258	9,817	9.1	6.0
Investment budget	914	1,060	1,060	1,160	15.9	9.4
(ordinary budget as % of GDP)	29.2	29.2	30.0	29.9		
<b>Expenditures</b>	<b>11,527</b>	<b>12,164</b>	<b>12,358</b>	<b>12,882</b>	<b>7.2</b>	<b>4.2</b>
Ordinary budget (excl. amortisation payments and earthquake relief funds)	9,650	9,969	10,123	10,482	4.9	3.5
Investment budget (excl. earthquake relief funds)	1,877	2,195	2,235	2,400	19.1	7.4
(ordinary budget as % of GDP)	32.3	32.1	32.5	31.8		
<b>Borrowing requirements</b>	<b>2,125</b>	<b>2,155</b>	<b>2,040</b>	<b>1,905</b>	<b>-4.0</b>	<b>-6.6</b>
Ordinary budget	1,163	1,020	865	665	-25.6	-23.1
Investment budget	963	1,135	1,175	1,240	22.1	5.5
(as % of GDP)	6.0	5.7	5.4	4.7		
<b>Net lending or borrowing (national accounts basis)</b>	<b>1,643</b>	<b>1,535</b>	<b>1,420</b>	<b>1,235</b>	<b>-13.6</b>	<b>-13.0</b>
Ordinary budget	1,163	1,020	865	665	-25.6	-23.1
Ordinary budget expenditure national accounts base (-)	80		41		-49.0	
Investment budget	963	1,135	1,175	1,240	22.1	5.5
Capital transfers (-)	482	620	620	670	28.5	8.1
Investment budget national accounts expenditure adjustments	480	515	555	570	15.6	2.7
Surplus of public enterprises and other adjustments	670	800	800	760	19.4	-5.0
(as % of GDP)	1.9	2.1	2.1	1.9		
<b>General government net lending or borrowing</b>	<b>973</b>	<b>735</b>	<b>620</b>	<b>475</b>	<b>-36.3</b>	<b>-23.4</b>
(as % of GDP)	<b>2.7</b>	<b>1.9</b>	<b>1.6</b>	<b>1.2</b>		
(as % of GDP (adjusted on a national accounts basis))	<b>2.5</b>	<b>1.9</b>	<b>1.5</b>	<b>1.2</b>		

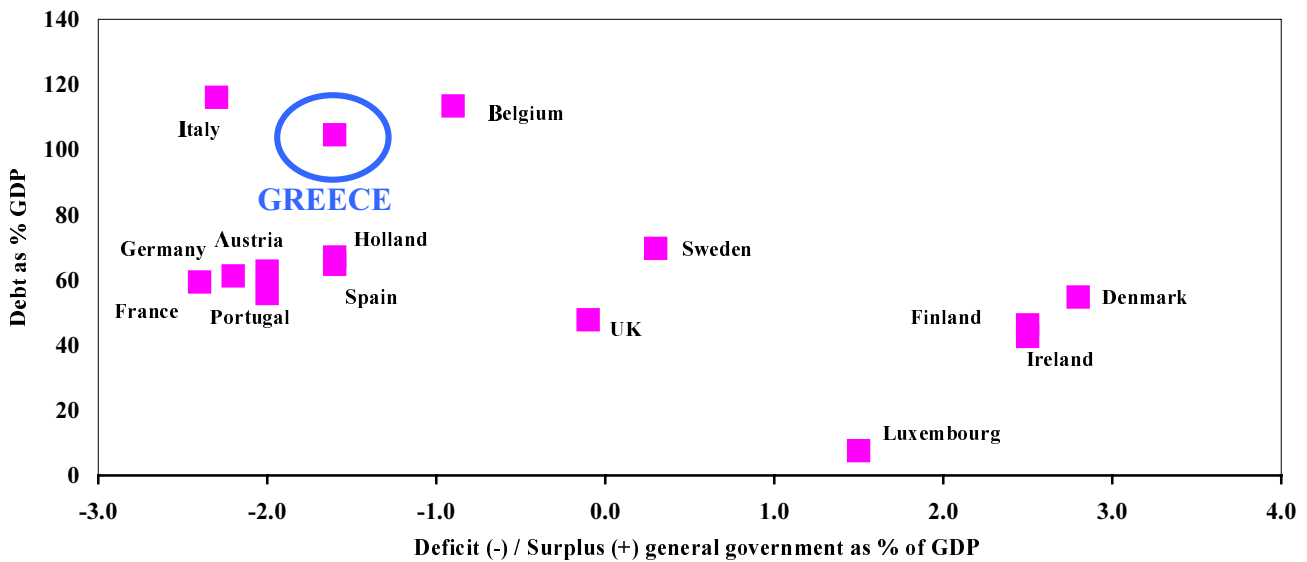
**Memorandum**

Amortisation payments	3,536	3,731	3,362	4,042	-4.9	20.2
Earthquake disaster recovery funds			50	80		60.0
Interest payments	3,234	3,350	3,320	3,220	2.7	-3.0
(as % of GDP)	9.1	8.8	8.7	8.0		
<b>Primary expenditures</b>						
Ordinary budget	6,417	6,619	6,803	7,262	6.0	6.7
Investment budget	1,395	1,575	1,615	1,730	15.8	7.1
<b>Primary surplus</b>	<b>1,591</b>	<b>1,815</b>	<b>1,900</b>	<b>1,985</b>	<b>19.4</b>	<b>4.5</b>
(as % of GDP)	4.5	4.8	5.0	4.9		
Special account for guarantees of agricultural products (revenues = expenditures)	793	973	930	981	17.3	5.5
GDP (current prices)	35,677	37,917	38,053	40,487	6.7	6.4

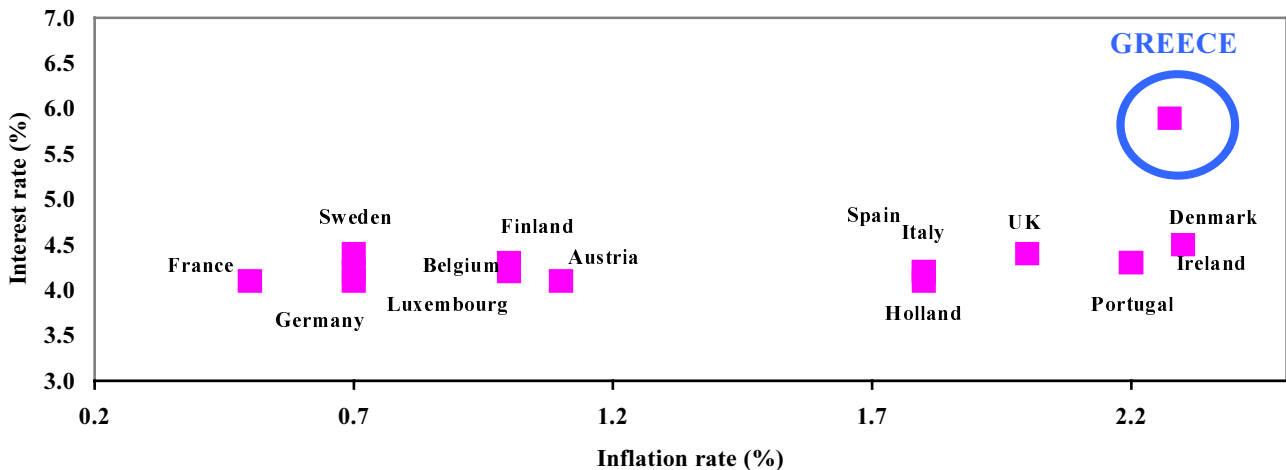
**Real convergence with EU (Growth of GDP as %)**



**Public deficit and debt 1999**



**Interest and inflation rates (%)**



**Table 4 Expenditure of the ordinary budget by category  
(GRD bn)**

Category	1998	1999		2000	Change %	
	Outcome	Budgeted	Estimates	Budgeted	99/98	2000/99
Personnel outlays	3,670	3,769	3,879	4,109	5.7	5.9
Grants to social security funds	886	906	917	1,048	3.4	14.3
Grants to other entities	537	547	567	600	5.6	5.9
New programs		56		53		
Government purchases of goods and services	600	620	678	678	12.9	0.1
Country contributions to EU	452	435	435	440	-3.8	1.1
Medical care	169	144	166	163	-2.3	-1.4
Agricultural subsidies and new obligations	100	105	137	108	3.5	4.9
Reserve		35	22	60		
<b>Primary expenditure (I)</b>	<b>6,417</b>	<b>6,619</b>	<b>6,803</b>	<b>7,262</b>	<b>6.0</b>	<b>6.7</b>
Tax refunds and restitution of revenue in favour of third parties	1,010	1,081	1,092	1,138	8.1	4.2
<b>Ordinary expenditure excl. interest payments (II)</b>	<b>7,427</b>	<b>7,700</b>	<b>7,895</b>	<b>8,400</b>	<b>6.3</b>	<b>6.4</b>
Interest payments	3,234	3,350	3,320	3,220	2.7	-3.0
<b>Total ordinary expenditure</b>	<b>10,661</b>	<b>11,050</b>	<b>11,215</b>	<b>11,620</b>	<b>5.2</b>	<b>3.6</b>
Earthquake relief funds			30	40		33.3

## Revenues and receipts

Budget revenues are anticipated to increase by a further 6.2% in 2000 compared to 1999 to a total of GRD 12,115 bn which comprise revenues collected for third parties of about GRD 1,138 bn. Thus, net ordinary budget revenues amount to GRD 9,817 bn, yielding an estimated increase of 6.0% in 2000 compared to 1999. Direct taxes are estimated to reach a total of GRD 3,690 bn (a decrease of 0.1% in 2000 over 1999), whereas indirect taxes GRD 6,246 bn (an increase of 8.9% in 2000 over 1999). Their total of GRD 9,936 bn is thus estimated to increase by 5.3% in 2000 over 1999.

## Expenditure

Budget policies regarding expenditure include the following:

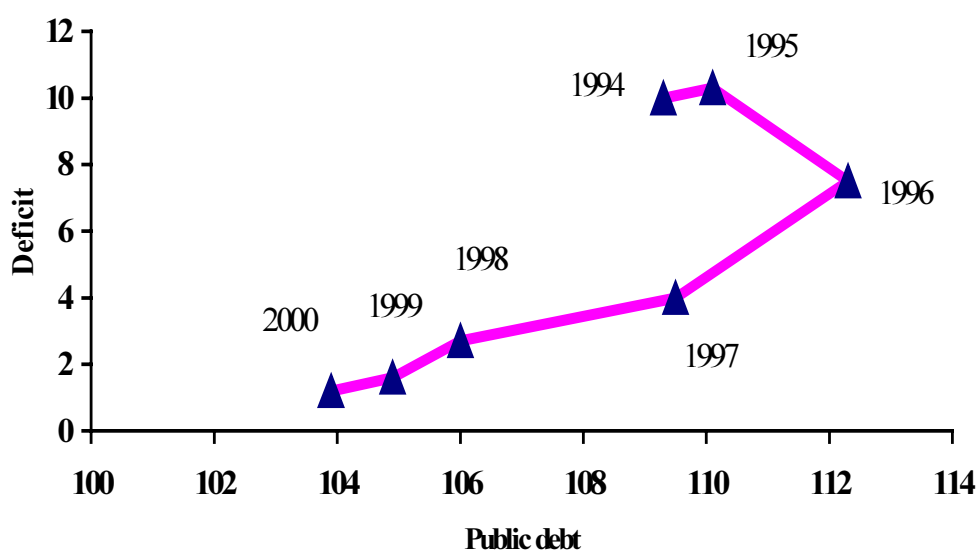
- (a) the continuing containment of consumption expenditures and severe reductions in funding specific categories of expenditure;
- (b) the certain containment of salaries and pensions expenditures pursuing a strict yet reasonable income policy;
- (c) the satisfaction of specific needs in education, health, public and social security; and
- (d) the need to reduce further public borrowing.

**Table 5 Composition of public debt  
(GRD bn)**

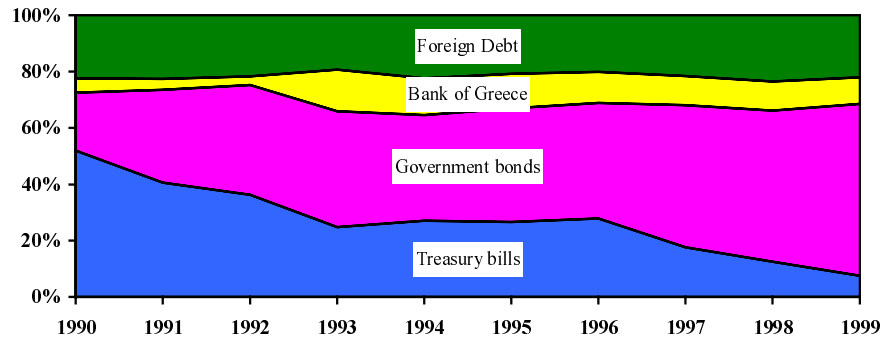
	1994	1995	1996	1997	1998	1999*
<b>Domestic debt (I)</b>	<b>21,862</b>	<b>25,389</b>	<b>29,014</b>	<b>30,710</b>	<b>32,402</b>	<b>33,813</b>
Treasury bills	7,533	8,422	10,012	6,800	5,322	3,206
Government bonds	10,424	12,803	14,748	19,563	22,649	26,174
Long term loan from Bank of Greece	3,621	3,866	3,949	4,023	4,104	4,119
National defense loans	284	298	305	324	327	314
<b>Foreign debt (II)</b>	<b>6,231</b>	<b>6,593</b>	<b>7,232</b>	<b>8,330</b>	<b>9,150</b>	<b>10,230</b>
Government bonds & syndicated loans	5,389	5,673	6,376	7,453	8,320	9,121
National defense loans	842	920	856	877	830	1,109
Central government debt (III: I + II)	28,093	31,982	36,246	39,040	41,552	44,043
Intra-governmental debt (-) (IV)	1,870	2,379	2,923	3,200	3,717	4,111
<b>General government debt (III-IV)</b>	<b>26,223</b>	<b>29,603</b>	<b>33,323</b>	<b>35,840</b>	<b>37,835</b>	<b>39,932</b>
GDP	23,984	26,893	29,678	32,752	35,677	38,053
<b>As % of GDP</b>	<b>109.3</b>	<b>110.1</b>	<b>112.3</b>	<b>109.4</b>	<b>106.0</b>	<b>104.9</b>

\* Estimates

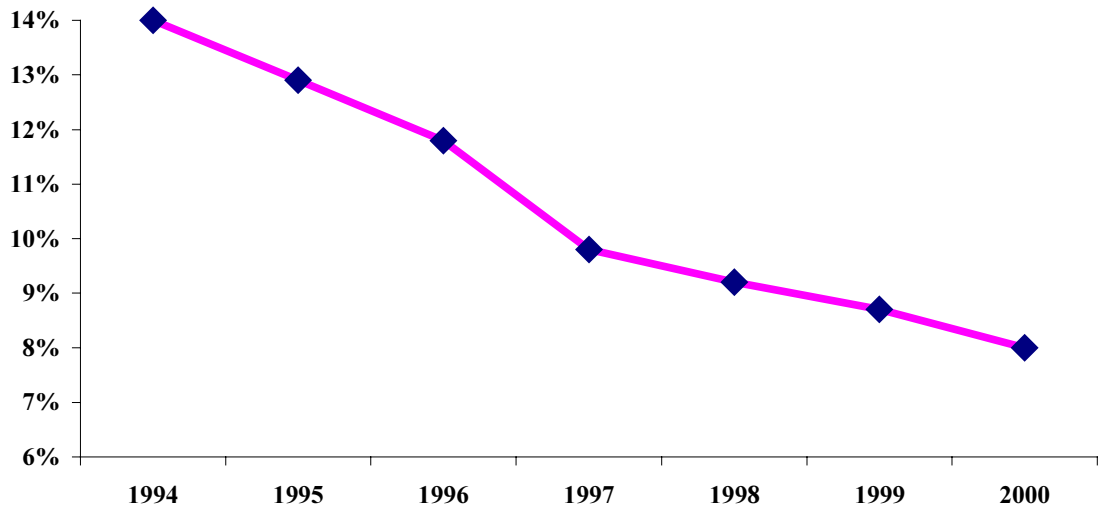
**Public debt and deficit  
(as % of GDP)**



### Composition of central government debt



### Interest payments (as % of GDP)



Thus, ordinary budget expenditure will amount to GRD 11,620 bn (equaling 28.7% of GDP) a budgeted increase of about 3.6% in 2000 compared to 1999. Primary budget expenditure will reach GRD 7,262 bn equal to 17.9% of GDP in 2000, exhibiting an increase of 6.7% against 1999.

### **Interest payments**

Interest payments will reach GRD 3,220 bn or 8.0% of GDP in 2000. This represents a decrease of about GRD 100,0 bn against 1999.

### **Public investment**

The public investment expenditures were successfully implemented resulting in a slight increase of GRD 40,0 bn against the initial budget targets, due to the completion of projects undertaken within the 2nd EU support framework. The budgeted figures for the year 2000, totaling GRD 2,400 bn (7,4% increase against GRD 2,235 bn in 1999), focus among others upon major infrastructure projects.

### **Public debt**

The outstanding debt of general government is estimated at 104.9% of GDP down from 106% in 1998, 109.4% in 1997 and 112.3% of GDP in 1996. Further reduction in the

debt/GDP ratio is expected in the coming years as a result of the budgeting primary surpluses, the high GDP growth, the lower interest rates and the receipts of the privatisation program.

### **The budgeting process**

*Greek Parliament is composed of a single chamber, with 300 MPs elected for a period of four years. The last election took place in October 1996. The constitution grants the legal right to the National Assembly to approve the government budget, which then becomes law. The government submits the budget in November. After its submission, the proposal is examined in detail by the Financial Affairs Committee and voted on by its members. It is subsequently discussed in a plenary session and must be approved as a whole and not in parts. For the final approval, an absolute majority should be ensured.*