The New Greek Proposal

It seems that the numbers add up in the new proposal on the table but Europeans are divided between the fudgers and the orthodox. Although all sides want a positive outcome major difficulties remain. It is a matter of attitudes.

The Greek proposal contains measures amounting to 7.9 billion for 2015 and 2016 and the government aims to collect 680 million euro by the end of the year from the VAT changes and an additional 665 million euro from curbing early retirement and increases in social security contributions.

The Greek side believes that the sacred cow of the public sector should not be touched: no redundancies, no reductions in the pensions of judges, public sector companies employees and no privatisations of the energy monopoly. Instead the private sector with the 1.2 million unemployed should pay again for the extravagant pensions. All the measures are on the revenue side heating the real economy harder at the beginning of a new recession.

Business people are desperate. The talk in Athens is about moving operations abroad. Companies are planning to establish new marketing units in other European countries to avoid the hit on profits. Redundancies are inevitable.

The pension system is unsustainable over the medium term. The secondary pension system is not funded. In one secondary fund (National Bank) payment of pensions depends on loans. National Bank has already lent to the fund 500 million euro which are unlikely to be recovered!

Inside the Eurogroup some finance ministers have raised the issue. They have questioned the one sided view taken by Greece and they have characterized the proposal as contrary to growth. It remains to be seen whether the institutions at the end of the day will accept the Greek proposal as it is or force some rebalancing in favour of cuts in pensions.

The comparison of this package with the one proposed to Samaras last year is not flattering for SYRIZA. The new tax measures will alienate the middle class voters that have shifted to SYRIZA. If we add to these new taxes the retention of the real estate tax ENFIA (SYRIZA has promised to abolish it) the damage is even greater.

The government will claim that they have succeeded in reducing the level of surpluses from 3% of the GDP to 1%. However, the previously agreed surpluses were now unattainable as

GDP forecasts have been revised downwards from 2.5% to probably 0% for 2015.

Proposed measures	2015	2016
VAT (%GDP)	**0,38%**	**0,74%**
Rebalancing VAT	680	1.36
Pensions (%GDP)	0,37%	1,05%
Curbing early retirement	60	300
Increase in social security contributions for basic pensions 3,9%	350	800
Increase in health contributions (basic pension)	135	270
Increase in health contributions (secondary pension)	0	240
Increase in social security contributions for secondary pensions to 3,5%	120	250
Tax measures % GDP	**0,66%**	**0,58%**
Extraordinary tax 12% on profits of corporations exceeding 500 thousand	945	405
Increase in the tax rate of corporations from 26% to 29%	0	410
Solidarity tax	220	250
Other measures % GDP	**0,10%**	**0,50%**
Defence cuts	0	200
Tax on advertising	100	100
Luxury tax on yachting	47	47
VLTs	35	225
4G and 5G licenses	0	350
TOTAL	**2.692**	**5.207**
%GDP	**1,51%**	**2,87%**

We have to wait until probably Wednesday to see whether changes to the measures will be enacted.

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