Greece, eurozone edge closer on pensions and fiscal gap but IMF keeps bar high

Photo by MacroPolis

The Eurogroup Working Group held on Monday failed to narrow the differences on the fiscal gap foreseen by the Greek authorities, the European institutions and the IMF.

Thus, the date of the mission chiefs' return to Athens still remains unidentified and could be clarified at Monday's Eurogroup.

In an interview with Star TV on Monday evening Prime Minister Alexis Tsipras said he expects the quadriga heads to return in the first ten days of March. He also confirmed that the estimates of the three European Institutions - European Commission (EC), European Stability Mechanism (ESM) and ECB - are broadly aligned with those of the Greek government on the fiscal gap for 2016. However, he stressed there is a notable divergence with the IMF's forecasts.

Greece sees fiscal gap in 2016 at 0.6 percent or around 1 billion euros, mostly related to measures that are incorporated in the 2016 budget but have not been either legislated or implemented. These interventions relate to:

1) Imposition of a new tax of 0.05 euros per column in OPAP games as of the beginning of 2016, with estimated revenues of 190 in 2016. The tax has not been implemented so far due to deliberations between the Finance Ministry and OPAP on the specification of the technical guidelines as well as OPAP's appeal to the Council of State (CoS) to suspend the imposition of the levy. However, following developments last week, when the court rejected OPAP's appeal and a ministerial decree was signed that set the payment of this tax on a quarterly (instead of monthly) basis, collection of the new tax is likely to begin sometime in the next few months.

2) Tax rate of 30 percent on OPAP Video Lottery Terminals (VLTs), with targeted revenues at 100 million. But the VLT launch has been delayed and it is not yet known when this tax will be implemented.

3) Increase in the income tax rates for farmers (estimated revenues at 32 million), reform in the income tax code (150 million) and other not-specified revenue measures (110 million).

4) Cost savings of 400 million from cutting military expenditure and other Defence Ministry costs. It is not clear whether Panos Kammenos would agree to implement those cuts.

We understand that the European institutions estimate the 2016 fiscal gap slightly higher at 0.9 percent of GDP, whilst the IMF's forecast is close to 1.8 percent of GDP. The deviation from the Greek authorities' estimates mostly relates to a different assessment on the outcome of the already implemented measures.

Also, Greece has to identify measures yielding a total of 1 percent of GDP (0.75 percent coming into effect in 2017 and 0.25 percent in 2018) to achieve a primary surplus target of 3.5 percent in 2018. This is outlined in the third bailout programme with the eurozone signed in mid-August.

The IMF sees a fiscal gap of 4-5 percent of GDP (up to 8.8 billion) by 2018 and as Poul Thomsen, the director of the IMF's European department, revealed in a blog post on February 11 this cannot be covered "without major savings on pensions."

Institutions, and particularly the IMF, are also concerned about the fiscal impact from the implementation of the Council of State decision ruling unconstitutional the pension cuts imposed in 2012. This is estimated up to 2 percent of GDP or 3.7 billion euros.

An additional fiscal burden could also stem from the Audit Court decision ruling that the pension and salary cuts for doctors and academics imposed in 2012 violate constitutional provision.

Another area of disagreement with the IMF lies with the fiscal outcome of 2015. The Greek government's estimates point to a primary surplus of 0.2 percent of GDP versus a target for a primary deficit of 0.25 percent, whilst the IMF forecasts a higher deficit of 0.6 percent.

The official announcement of the 2015 fiscal performance is due by the Hellenic Statistical Authority on April 18, when it is scheduled to publish its first notification on 2015 fiscal data. Eurostat will follow with its own release on April 21.

Pension reform

The government spokeswoman Olga Gerovasili said at a press briefing on Tuesday that there is broad convergence between the institutions and the government on the pension reform, indicating that an agreement could be clinched soon.

On the domestic front, farmers have abandoned their roadblocks following the two meetings of their representatives with Tsipras last week. Although they were not satisfied with the latest government proposal, they decided to return home and reconsider their stance once the pension bill is tabled in Parliament.

Tsipras proposed to farmers a 5-year transition period for their pension fund (OGA), gradual phase-in of social security contributions to 20 percent by 2021 and option for a lower contribution rate of 16 percent leading to lower pension. The government said that a tax-free threshold would be applied for small and medium agricultural producers with the total new tax and contribution burden standing at lower than current levels for 80-90 percent of farmers.

Meanwhile the self-employed (doctors, engineers, lawyers) are still not satisfied with the amendments proposed by the Labour Ministry and would prefer their own pension fund (ETAA) to remain independent, as the government proposed for OGA.

Speaking at the Delphi Economic Forum over the weekend,Labour Minister Giorgos Katrougalos indicated he was open to discuss the creation of a professional fund for the self-employed, meaning that they could be potentially excluded from the compulsory insurance in the new unified pension system.

Tsipras did not rule out during his interview on Monday a cut to high pensions by reducing the current ceiling. This stands at 3,680 euros per month and the new pension plan indicates it would be lowered to 3,088 euros for multiple pensions and to 2,473 euros for single pension. However, Tsipras said that such cut would have more of a symbolic, rather than material fiscal, meaning.

In addition, Tsipras stressed that the government will fight to secure pensions between 600 – 1,200 euros, which relate to the bulk of pensioners. This indicates that a cut in higher pensions as a last-ditch effort to reach a compromise with institutions on the programme review is no longer a red line for the government.

The third bailout programme calls for pension cost savings of 1 percent of GDP (1.8 billion euros) in 2016 with the government proposing a rise in social security contributions for supplementary pensions by 1.5 percentage points to cover the remaining gap of around 600 million to meet the bailout target on top of the already voted measures.

However, despite an initial agreement of the four largest employers' federations with the government on that contributions' increase, institutions have rejected the Greek proposal inevitably paving the way for a cut in main or supplementary pensions to achieve the pledged pension cost savings for this year.