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Greek Tax Reforms Kick-Start Economic Resurgence

By: *Emerging Markets Debt* | June 21, 2023

London - The Greek government is poised to build on the country's remarkable turnaround story if the governing New Democracy party can clinch re-election at the polls on June 25. Since coming to power in 2019, Mitsotakis' pro-business government has worked to restore confidence and reignite growth. The centerpiece of his reform program, an ambitious package of tax cuts, appears to be making a meaningful impact.

June 21 — "Tax Freedom Day"

According to the Greek think tank, The Center for Liberal Studies — Markos Dragoumis (KEFiM), "Tax Freedom Day" falls on June 21 this year, a 14-day improvement from 2022 and the earliest date in the calendar since 2011.¹ Tax Freedom Day is calculated as the date when taxpayers would have paid all their tax obligations, were they to prioritize paying into government coffers before meeting their own needs.

The tax burden remains relatively high compared to the likes of the U.S., where Tax Freedom Day landed on April 18 this year, but Greece's improvement is undeniably meaningful. The tax relief increases the amount that households and businesses will earn for themselves, boosting individual payer's disposable incomes and companies' free cash flows for consumption spending and investment.

The reform drive is paying off for the Greek economy. Although the country was hit hard by the pandemic, GDP growth has outperformed expectations during the recovery from COVID-19. The country is implementing reforms as part of the EU Recovery Plan, and significant investments are being made by both public and private sectors into the green economy and digitalization.

The sovereign is benefiting too. S&P changed the outlook on Greek government debt to positive from stable in early May. There are expectations that the country could soon regain its investment grade rating after previously being downgraded.

June 25 — Parliamentary elections

In the most recent general election on May 25, the New Democracy Party increased its share of seats, but failed to win an outright majority. Accordingly, the country will hold snap elections on June 25, with prospects for Mitsotakis to secure a second term and to strengthen his mandate.

We believe a Mitsotakis-led government would continue to advance a market-oriented policy agenda, improving the efficiency of government and further lowering the tax burden. In such a scenario, we would expect Greece to continue outperforming over the medium term on the back of positive reform momentum. Even in the unlikely event that Mitsotakis fails to win a majority at the coming election, the next Greek government will likely remain committed to reform under the EU recovery program.

Bottom line: Today, Greece stands out as an emerging markets success story thanks to pro-business reforms that have fostered a better investment climate to kick-start growth. The lighter tax burden has been a key part of the country's turnaround story. As emerging markets investors, we seek to identify countries, like Greece, where reform and sound macroeconomic management can lead to structural change and positive investment outcomes for our clients.

¹ The Center for Liberal Studies — Markos Dragoumis (KEFiM). As of June 21, 2023.

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