Gov’t warned of ‘austerity trap’

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The Parliamentary Budget Office warned on Tuesday that the government’s agreement with the country’s creditors amounts to an extension of Greece’s austerity that will weigh on the economy as it entails heavier tax burdens and fails to eliminate uncertainty, mainly regarding taxes.

In its quarterly report, the PBO also stresses that while the deal could under certain conditions have some positive consequences, it is exposed to multiple risks.

The report highlights the risk of the country falling in an “austerity trap,” where constant tax hikes and shrinking expenditure eat into the gross domestic product and increase the debt, as was the case with the 2016 primary surplus.

It adds that the spring of 2018 is a key milestone as it is then that it will be decided whether the fiscal targets of 2018 will be met, whether the so-called countermeasures will apply, and whether the tax measures for 2020 will be brought forward to 2019. It is also then that the decisions on the national debt will be finalized.

The delays in the bailout review and reforms have increased uncertainty, which constitutes “poison for the economy,” the PBO’s report notes, while a major uncertainty factor that will also determine the success of the program is the country’s apparent failure to meet growth targets.

The budget’s forecast for a 2.7 percent expansion this year appears “improbable,” according to the Parliament’s economists, given also the slowdown recorded in the last quarter of 2016. If that slowdown is confirmed, the report warns that “the other forecasts of the budget, regarding tax revenues and the primary surplus, will also be disputed” and the Greek economy will have to come along in leaps and bounds in the next quarters to reverse the negative developments recorded to date. These developments counter expectations and threaten a full reversal of the bailout program’s provisions with unpredictable consequences, it stresses.

Averting that negative scenario depends on the political choices of the government – particularly the speed and quality of reforms – and of the creditors regarding the reduction of the debt and primary surpluses.