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Greece's Mitsotakis calls for tax cuts and reforms

New prime minister throws his weight behind restructuring as economy improves

Greece's new prime minister, Kyriakos Mitsotakis, has announced tax cuts and structural reforms aimed at rebuilding the country's credibility with investors, after three international bailouts and a grinding eight-year recession.

"Greece has turned a page," the prime minister said in a speech on Saturday evening to business people in the northern city of Thessaloniki. "Greece is no longer the black sheep of the EU, we're a self-confident country now."

The premier said the country was still committed to achieving high primary budget surpluses — before debt repayments — of 3.5 per cent of gross domestic product in 2019 and 2020, as agreed with European creditors.

Mr Mitsotakis hopes that if Greece delivers on reforms, the 2021 surplus targets will be cut to 2 per cent of GDP, freeing up funds for public investment projects frozen during years of austerity.

His centre-right New Democracy defeated the leftwing Syriza party of Alexis Tsipras in a snap election in July, promising a return to pro-market policies while easing the burden on taxpayers and maintaining benefits for pensioners.

One stone at a time, we're setting the foundations of the country's regeneration

Two months into ND's term, Greece is enjoying a boost in investor confidence with yields on its sovereign bonds at historical lows. One opinion poll published last week showed the party holding an 18-point lead over Syriza, compared with an 8.5-point lead at the July election.

The government last month legislated an immediate 22 per cent cut to enfia, an unpopular property tax introduced during Greece's first bailout.

A wide-ranging tax law will be presented to parliament in October. Mr Mitsotakis said the corporate tax rate would be cut from 28 per cent to 24 per cent next year, while social security contributions — among the highest in the EU — would be gradually reduced by 5 per cent by 2023.

In a move seen as an incentive for tourism investment, value added tax on new construction would be suspended for three years along with capital gains tax on property sales.

Most of these measures have been under discussion since the election, but the premier put his stamp of approval on them with this speech. "One stone at a time, we're setting the foundations of the country's regeneration," Mr Mitsotakis said.

One priority has been to unblock a €8bn investment led by Greek and Gulf investors to redevelop the coastal site of the former Athens international airport as a business and leisure centre.

The project, first mooted a decade ago, was included in Greece's final bailout agreement but remained stalled by infighting under the Syriza government. Mr Mitsotakis said the investors would come up with a €300m initial payment by the end of the year.

The project would be transformative for the capital, creating 10,000 jobs during the construction phase and employing up to 75,000 people when completed, he said.

Greece's official unemployment rate has fallen to 17 per cent from 28 per cent at the height of the crisis. The jobless rate among young graduates remains high at 20 per cent, fuelling an exodus of more than 400,000 skilled young Greeks to find work in other EU member states during the crisis years.

Mr Mitsotakis promised to accelerate several privatisation programmes agreed with creditors but delayed under Syriza, among them stakes in state-owned energy and transport companies. The state-owned gas supply company DEPA, the electricity utility Public Power Corporation and the Athens airport operator AIA will all be looking for private investors.

"The government appears determined to tackle longstanding problems of red tape, over-regulation, non-performing bank loans and other rigidities that impede investment and productivity growth," said Miranda Xafa, a former IMF economist.

Greece's economy is projected to grow 2.2 per cent this year led by higher exports and increased tourist spending, according to EU forecasts. But the growth rate must pick up significantly during ND's term if Greece is to make up for a 25 per cent fall in output during the bailout period.

Ms Xafa warned that despite recent encouraging signs "implementing the government's vision within Greece's limited fiscal space will be challenging given the clouds gathering over the global economy".