

**‘The ‘Tax-gap’ as an indicator of fiscal sustainability:  
Analysis and policy proposals for the case of Greece’**

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**Introduction**

The issue of sustainability of public finances lies at the heart of contemporary economic analysis but also in ongoing discussions in the circles of economic policy makers in almost all developed countries that are confronted with high public debt levels. The necessity to take measures to address explosive debt dynamics in developed countries (particularly in Europe and the United States) requires frequent (re)assessment of whether current policies can generate sustainable fiscal outcomes, if they continue to be implemented in future. In this respect, fiscal or debt sustainability assessments fall into various categories depending on the method of analysis and the criteria adopted in the sustainability exercise.

Apart from the *traditional* analysis of public debt<sup>1</sup>, a set of alternative criteria/indicators have often been employed in the relevant sustainability assessments. This study presents an analysis for the sustainability of fiscal policy in Greece, based on the concept of the ‘Tax-gap’ for the short and the medium term, respectively<sup>2</sup>. On the basis of this criterion, the conclusions of the technical analysis for current fiscal (and tax) policy, are accompanied by brief thoughts and policy proposals aiming at improving the sustainability of public finances at a critical juncture for the country’s fiscal and economic future.

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<sup>1</sup> See for instance Balassone and Franco (2000) and Rowley *et al.* (2002).

<sup>2</sup> The present study draws on the recent work by Monogios and Korliras (2011) assessing the fiscal sustainability gap in a number of Eurozone economies.

## **Part 1: The necessity to assess fiscal policy sustainability**

Fiscal soundness is a precondition to macroeconomic and price stability and a driver for sustainable economic growth. Factors that de-stabilise fiscal policy may cause serious instability and sizeable distortions to the overall macroeconomic environment, heightening, for instance, uncertainty for the future and fuelling inflationary expectations.

In view of the above considerations, monitoring fiscal progress is extremely important especially within a monetary union (such as the Eurozone), for two principal reasons: First and with reference to recent experience, within a monetary union and in an environment which is relatively insulated from exchange rate shocks, fiscal efforts may be quite lenient, lacking the rigor or thrust required (thus reinforcing deficit and debt dynamics) with adverse consequences for growth. Second, national fiscal policy in individual member-states may be conducted with a strong bias towards short-term domestic objectives, diverging from (or even undermining) as a result, the union's common objectives.

For example, chronic fiscal imbalances in many EU member-states may have led economic policy developments through a 'more relaxed' implementation of the union's rules and norms; a fact that in the longer term may lead to a gradual erosion of the rationale for adopting harmonized and coordinated fiscal policy action. Moreover, national economic policy goals may, in cases, run counter to the Central bank's target of maintaining price stability. In many cases, the above may result in implementation delays, bottlenecks or postponement of policies required to attain convergence to the union's overarching objectives.

Apart from any legitimate considerations *vis-à-vis* certain theoretical and/or technical aspects in fiscal sustainability analyses<sup>3</sup>, fiscal soundness evaluation exercises are frequent and recurring mainly for monitoring purposes<sup>4</sup>. From a theoretical standpoint, any assessment of fiscal policy soundness should reflect both short-term fiscal stability and longer term fiscal sustainability. In the short term the stability of public policies should reflect the ability of the government to honor its financial liabilities timely and in full. Longer term sustainability of public finances, however, should fulfill the government's inter-temporal budget constraint. However, given the length of the time horizon involved in the analysis, every assessment of fiscal soundness is subject to considerable uncertainty about the evolution of macro-fiscal variables in the future.

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<sup>3</sup> See for instance Wyplosz (2007).

<sup>4</sup> For a recent discussion regarding the need to modernize the framework of fiscal sustainability analysis, see International Monetary Fund (2011a).

From a technical point of view, a thorough analysis of fiscal sustainability should adopt a specific methodology and criteria/indicators against which fiscal policy is evaluated. Moreover, any predictions or forecast values of the (macro and fiscal) variables employed in the analysis should bear a clear and sufficient justification, as the results stemming from the analysis are a reflection of the accuracy, the realism and ultimately the quality of the data utilized.

Thus, the degree of uncertainty surrounding the analyses of long-term sustainability of public finances stresses even further the need to investigate the short -and medium- term stability of fiscal policy<sup>5</sup>. The relation of long-term sustainability with fiscal stability in the short-term is primarily reflected in the behavior of the financial markets. For as long as capital markets are confident about the sustainability of public finances, they will continue to finance the newly issued debt and cover the government's short-term financing needs. If, however, sustainability is at stake, then investors will reassess the risks associated with a decision to continue financing the government's debt. The size of the risks assumed is determined by several factors, such as the size of the long-term fiscal imbalances, the government's short-term liquidity perspectives, the composition, term structure and maturity of public debt, the resilience of public finances to adverse shocks, and the announcements for the course of economic policy in the future etc., among others.

In the economics literature, there are numerous attempts to address the host of issues surrounding fiscal sustainability (at both the theoretical and the empirical level), focusing on specific aspects of fiscal soundness in various countries. Reflecting on previous work on the assessment of the 'primary gap' in fiscal finances in Greece (Monogios 2010), this study attempts to evaluate fiscal policy sustainability through the use of alternative indicators, namely the short -and medium-term tax-gap indicators.

The second part of this work introduces the theoretical and the conceptual framework upon which, as presented in the third part of this paper, the technical analysis regarding sustainability of the Greek public finances is based. The last section summarizes and evaluates the results of the analysis and briefly discusses some policy implications and proposals for the improvement of fiscal policy sustainability in Greece.

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<sup>5</sup> See for instance, Mendoza and Oviedo (2003)

## Part 2: The theoretical framework for assessing the sustainability of public finances and the concept of the tax-gap

The concept of sustainability is forward looking, meaning that it can be understood with reference to the future. In most sustainability analyses the starting point is whether, based on current and projected policies, the present value intertemporal budget constraint (or alternatively the government's solvency condition) is met. The government's intertemporal budget constraint is derived from the government flow budget constraint, captured by the following expression<sup>6</sup>:

$$b_0 \leq \sum_{j=1}^{+\infty} \left[ \frac{(1+g)}{(1+r)} \right]^j pb_j \quad (1)$$

Where all variables are expressed as percentages of GDP:

$b_0$  = is the initial level of public debt,

$g$  = is the growth rate of real GDP

$r$  = is the real (effective) interest rate

$pb$  = expresses the primary balance (deficit or surplus, net of interest payments on debt) in period  $j$ .

Equation (1) indicates the size of the primary surplus  $pb > 0$ , that needs to be generated in the future in order to balance (or exceed) the size of the present value of debt. The fulfillment of this condition is a prerequisite for the long-term sustainability of fiscal policy, and thus for the solvency of the government.

Assuming, for simplicity, that the rate of growth of real GDP,  $g$ , and the real interest rate,  $r$ , are

constant, we simplify expression (1) by setting the discount factor as  $\phi_j = \left[ \frac{(1+g)}{(1+r)} \right]^j \phi_{j-1}$ , where

$\phi_{-1} \equiv 1$ , and substituting it to eq. (1):

$$b_0 \leq \sum_{j=1}^{+\infty} \phi_j pb_j \quad (2)$$

Equation (2) is an (obvious) equality. However, in case where:

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<sup>6</sup> For a detailed technical analysis see Monogios (2010), Escolano (2010).

$$\mathcal{G} = b_0 - \sum_{j=1}^{+\infty} \varphi_j pb_j \quad \text{where } \mathcal{G} > 0 \quad (3)$$

then the observed 'sustainability gap', indicates the size of the primary surplus needed to fulfill the intertemporal budget constraint condition, and thus to ensure the sustainability of public finances. In other words, the difference  $\mathcal{G}$  reflects the minimum level of fiscal effort needed to ensure the sustainability of fiscal policy. The 'primary gap' indicator, which indicates the difference between the primary surplus  $pb^*$  needed to stabilize the debt/GDP at a target level, from the current period's primary surplus  $pb$  (i.e. the difference  $pb^* - pb$ ) is probably the most popular fiscal indicator in the sustainability assessments<sup>7</sup>. The greater the difference between the sustainable and the current period's primary surplus, the greater the fiscal effort required to stabilize the debt/GDP to the desired level.

The primary balance (net of interest payments) is given by:

$$pb_j = \tau_j - \varepsilon_j \quad (4)$$

Where in period  $j$ :

$\tau =$  is the ratio of tax revenues to GDP,

$\varepsilon =$  is the ratio of government expenditures to GDP.

From eq. (1) and (2) above, we get:

$$b_0 \leq \sum_{j=1}^{+\infty} \varphi_j (\tau - \varepsilon)_j \quad (5)$$

Now suppose that fiscal policy follows a simple and steady linear rule such that:

$$T_j = \tau Y_j \quad \text{and} \quad E_j = \varepsilon Y_j$$

Then solving eq. (5) we get the 'sustainable tax ratio'  $\tau^*$ , i.e. the tax ratio which is necessary to stabilize the debt/GDP  $b_0$ :

$$\tau^* = \left( \frac{r-g}{1+g} \right) \left\{ \sum_{j=1}^{+\infty} \left[ \left( \varepsilon_j \left( \frac{1+g}{1+r} \right)^j \right) + b_0 \right] \right\} \quad (6)$$

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<sup>7</sup> See Korliras and Monogios (2010)

Equation (6) represents the infinite version of the sustainable tax-gap. The finite version of eq. (6), say, in  $T$  periods, after some algebraic manipulation, becomes:

$$\tau^* = \left( \frac{r-g}{1+g} \right) \left[ 1 - \left( \frac{1+r}{1+g} \right)^{-T} \right]^{-1} \left[ b_0 - b_T \left( \frac{1+r}{1+g} \right)^{-T} + \sum_{j=1}^T \varepsilon_j \left( \frac{1+g}{1+r} \right)^j \right] \quad (7)$$

Where:

$b_T$  = the ratio of debt/GDP in period  $T$ .

In cases where in period  $T$ , the ratio of debt/GDP  $b_T$ , is set equal to the initial debt level  $b_0$ , then eq. (7) yields:

$$\tau^* = \left( \frac{r-g}{1+g} \right) \left\{ b_0 + \left[ 1 - \left( \frac{1+r}{1+g} \right)^{-T} \right]^{-1} \left[ \sum_{j=1}^T \varepsilon_j \left( \frac{1+g}{1+r} \right)^j \right] \right\} \quad (8)$$

From eq. (5) we get two useful indicators for fiscal sustainability. The first, which is the focus of the present analysis, is the so-called ‘tax-gap’ indicator<sup>8</sup> as captured in eq. (7) and (8) which gives us the difference between the tax ratio  $\tau^*$  that is needed to stabilize the debt/GDP ratio (also called the sustainable tax ratio), from the current tax ratio  $\tau$ :

$$tax_{gap} = \tau^* - \tau \quad (9)$$

The size of the tax-gap indicator provides a measure of the magnitude of the tax adjustment (tax increases and/or expenditure reduction) required for debt sustainability. Therefore bridging the observed tax-gap is necessary to ensure fiscal sustainability. Different values of the tax-gap indicator in eq. (9) imply different fiscal directions and thus different fiscal policy choices.

If, for instance,  $tax_{gap} > 0$  then  $\tau^* > \tau$ .

This simply means that the current level of taxes is not sufficient to cover future government expenditures and debt repayment and thus adjustments will be needed in the course of fiscal policy in the future, if the target of stabilizing the debt/GDP at the desired level, is to be achieved. The

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<sup>8</sup> See Blanchard (1990).

size of the adjustment is given by the difference  $\tau^* - \tau$ . It should be noted however, that the required fiscal adjustment does not necessarily imply future tax increases<sup>9</sup>. This indicator simply points to the size of the adjustment required for debt sustainability. It does not however, tell us anything about the way this adjustment should be achieved.

The second index which can also be obtained from eq. (5), is known as the ‘expenditure-gap’ indicator<sup>10</sup> and it measures the difference between the government expenditure/GDP ratio  $\varepsilon^*$  necessary to keep the debt/GDP at a target level (also called the ‘sustainable expenditure’ ratio), from the current period’s public expenditure ratio  $\varepsilon$ , namely:

$$\varepsilon_{gap} = \varepsilon^* - \varepsilon \quad (10)$$

Note that given the estimated ‘tax-gap’ ( $\tau^* - \tau$ ), any delay in the adjustment process entails increased future costs, because the level of debt/GDP ratio, which will have to be stabilized at a later date, will be higher.

The cost of any given delay or postponement in filling the tax-gap can simply be calculated by:

$$d\tau^* / dt = (r - g)(\tau^* - \tau) \quad (11)$$

As an example, suppose that the difference between the real interest rate and the growth rate of real output (i.e. the *snowball effect*) is 3% and the estimated tax-gap is 5%, then postponing fiscal adjustment for 5 years, incurs an extra cost of 0,75 of one percentage point of GDP, in terms of  $\tau^*$  increase.

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<sup>9</sup> The required fiscal adjustment could be achieved either through increases in the marginal tax rates over the same tax base, or through the broadening of the tax base keeping the tax rates unchanged or through a combination of the two. Alternatively, the required fiscal adjustment could be attained in combination with cuts in government expenditures.

<sup>10</sup> See Giammarioli *et al.* (2007).

### Part 3: Assessing the short and medium tax gap indicators in Greece

To assess the sustainability of public finances in Greece, we provide estimates:

- a) for the short-term one year tax-gap indicator and
- b) for the medium-term, over the next five years tax-gap indicators, taking 2010 as the base year and adopting the following assumptions for the period 2011-2015:

- The growth rate of real GDP,  $g$ , is based on the most recent International Monetary Fund forecasts, as reflected in the Greek Medium-Term Fiscal Strategy 2012-2015 framework, ratified by the Greek Parliament in June 2011. The only exception is the value of  $g$  for 2011. For this year we adopt the Centre of Planning and Economic Research's (KEPE) forecast value of real GDP growth at -4.4%<sup>11</sup>.
- The real interest rate,  $r$ , for that period is assumed to be 3.5%. This is based on calculations for the average interest burden on the entire stock of public debt following the agreement at the European Summit on July 21, 2011 and the second financial support package to Greece from the Troika (the European Commission, the European Central Bank and the International Monetary Fund) and the international creditors.
- Finally, the ratio of the primary expenditures/GDP,  $\varepsilon$ , (net of interest payments on public debt), has been adopted from the Medium Term Fiscal Strategy 2012-2015 framework.

Based on the above data set for the period 2011-2015, we have estimated the sustainable tax ratios  $\tau^*$ , needed to stabilize the Greek debt/GDP ratio at the 2010 debt-target level, i.e. at 142.8%. Then for each year from 2011 and until 2015, we have calculated the corresponding tax-gap indicators against the base year. The short term tax-gap 2011-2010 indicator, reflects the increase in tax revenues within a year's period (i.e. in 2011) necessary to keep the debt/GDP ratio at the 2010 target level. The 2012-2010 to 2015-2010 indicators signify the corresponding medium-term tax-gaps for those years, on the basis of the assumptions adopted regarding the future course of government expenditures and the growth rates of  $r$  and  $g$ . The results of the above calculations are presented in Tables I and II and are graphically illustrated in Graphs I and II, respectively.

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<sup>11</sup> See KEPE's Information Bulletin: The KEPE Short-Run Forecasts for GDP and Inflation, July 19, 2011 at: [www.kepe.gr](http://www.kepe.gr)



**Table I.**

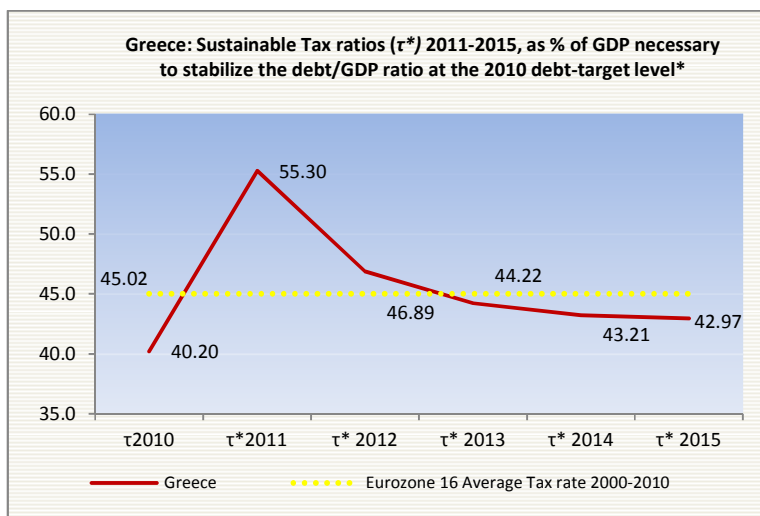
Sustainable Tax Ratios ( $\tau^*$ ) 2011-2015, as a % of GDP necessary for the stabilization of the debt/GDP ratio at the 2010 level *					
$\tau_{2010}$	$\tau^*_{2011}$	$\tau^*_{2012}$	$\tau^*_{2013}$	$\tau^*_{2014}$	$\tau^*_{2015}$
40.20	55.30	46.89	44.22	43.21	42.97

\* Author's calculations

**Table II.**

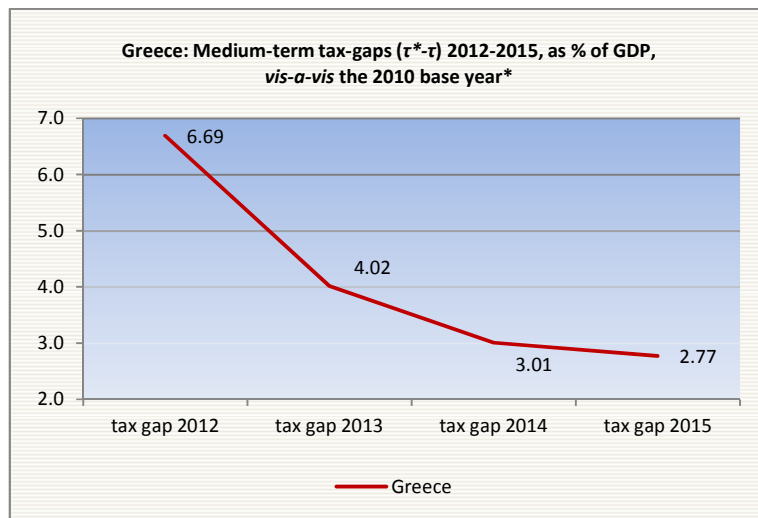
Short-term (one year) Tax-gap indicator ( $\tau^* - \tau$ ) for 2011-2010 as a % of GDP*	Medium-term Tax-gap indicators ( $\tau^* - \tau$ ) for 2012-2015 as a % of GDP*			
	Tax gap 2012	Tax gap 2013	Tax gap 2014	Tax gap 2015
15.10	6.69	4.02	3.01	2.77

\* Author's calculations

**Graph I.**

\* Author's calculations

**Graph II.**



\* Author's calculations

According to Table I, and given the course of government expenditures for the period 2011-2015, the tax revenues/GDP ratio, sufficient to stabilize the debt/GDP at the 2010 level (i.e. at 142.8%), is gradually decreasing from 55.3% in 2011 to 43% in 2015. Chart I illustrates graphically the respective changes in the required tax revenues/GDP ratio *vis-a-vis* the average tax ratio in the Eurozone of 16 member-states (at 45.02%) for the period 2000-2010. The adjustment in the tax revenues ratio appears to be quite sizeable in 2011 (15.1% points of GDP) compared to subsequent tax adjustments up to 2015. This is mainly due to the poor tax revenues performance in 2010 and the ensuing discrepancy from the level of the tax revenues required for achieving the target for 2011. The short-term tax-gap for the years 2011-2010 (first column in Table II), indicates the size of the one year tax revenues gap. This indicator however, is quite 'myopic' for it cannot gauge properly the size of the required fiscal effort, as it ignores the capability of a government to achieve the goal of debt stabilization, in such a short period of time (one year). Also, a year is too short a period for any sensible fiscal consolidation effort. The estimated short-term tax-gap 2011-2010 for Greece simply shows that the initial tax adjustment effort has to be large and front-loaded. Other things being equal, the amount of this adjustment should reflect approximately the change in the debt/GDP for those years<sup>12</sup>.

<sup>12</sup> The European Commission estimates the 2011 Debt/GDP for Greece at 157.7% (see AMECO database <http://ec.europa.eu>), although based on recent data for the first 8 months of 2011 (deeper than anticipated recession until Q3 2011, less than expected tax revenues and expenditure overruns), the ratio of Debt/GDP is expected to approach, if not exceed, 166% (see IMF, 2011b).

From 2012 and until 2015 the amount of tax revenues  $\tau^*$  needed to stabilize the debt/GDP ratio at the target level is asymptotically converging to the average tax revenues/GDP ratio of the Eurozone (45.02% on average in the last decade). The trajectory of adjustment indicates a gradual slowdown of the tax effort required throughout the adjustment horizon. The gradual reduction of the tax-gap ( $\tau^* - \tau$ ) for the years 2013-2010, 2014-2010 and 2015-2010 (Table II and Figure II) attests clearly to a downward fiscal adjustment profile, (with direct reference to changes in tax revenues/GDP) until the terminal year 2015.

On the basis of the assumptions adopted for the main aggregates used in the present analysis, the tax-gap indicators employed in the sustainability assessment, suggest that the medium-term sustainability goal of public finances in Greece, cannot be achieved. It is clear that achieving sustainability of public finances, the Greek government (with reference to the policy objective defined here, i.e. that of keeping public debt/GDP at the 2010 level) needs to embark on an intense, albeit gradually declining, adjustment of tax policy in the next five years. The size of the adjustment suggested is indicative of the tax effort required in this case. A direct consequence of failing to bridge the tax-gap will be the perpetual increase in public debt; a fact that will fuel debt dynamics even further and will render debt management even more challenging in the future. Given that the Greek public debt already stands at a high level (the highest in the Eurozone), any delay in efforts to contain it, implies increased costs for future sustainability efforts. This course of events would have serious consequences for the conduct of future economic policy, for it implies that an increased share of future national income will have to be devoted to debt redemption, thus depriving its use from other social spending of higher priority. Any postponement in addressing the debt problem shifts the burden of adjustment (and hence the cost in terms of loss of social welfare) to future generations, undermining in this way intergenerational equity and tax justice.

Under the assumed macroeconomic conditions and given the rather narrow margins for tax policy maneuvering in our country, the results obtained from the present analysis, regarding the size of the tax-gap, suggest that the goal of public debt sustainability is largely in doubt. The size of the required fiscal adjustment, but also the length of the adjustment period, put under a strenuous test the limits of the economic system and that of society. Besides, the sustainability of fiscal policy cannot be achieved with successive increases in the tax rates, as the International Monetary Fund

also admits<sup>13</sup>. In such a case, fiscal policy will, sooner or later, suffer from *fiscal fatigue*. The end result will be pronounced deviations from (instead of convergence to) the fiscal targets. In addition to strengthening the effectiveness of fiscal policy (in terms of structure, management and efficiency of the tax system), it is evident that fiscal sustainability can be achieved primarily through increases in the growth potential of the economy.

#### **Part 4: Conclusions and policy proposals**

The sharp reversal (deterioration) of the economic conditions in the last three years, makes it all the more difficult to fill the observed tax-gap in Greece (as calculated in this analysis) in the near future without significant macroeconomic costs. A policy proposal could foresee the creation of a cyclical safety margin, i.e. the creation of primary surpluses during the boom times (such as those the Greek economy experienced during the last decade) for this would greatly improve fiscal management and would assist the conduct of fiscal policy in bust times (within a well-defined fiscal framework targeting the reduction of public debt)<sup>14</sup>. But this simply did not happen in our country. The size of such a cyclical safety margin is quite important, given the output volatility and the size of tax elasticity and could serve as a buffer stock. Together with the operation of the automatic stabilizers this safety margin could absorb a significant part of the fiscal shock, as a result of a crisis/recession, at least in the short run.

On the basis of the adopted assumptions, the short- and medium-term tax-gap indicators for Greece calculated in this study, are rather indicative of the size of the problem. The difference between the sustainable tax revenues (needed to stabilize the debt/GDP at the 2010 target-level) and the actual tax revenues (as reflected in the 2010 tax performance) is considerably large and indicate the degree of the tax effort needed to achieve the debt-stabilization goal. Under recessionary conditions, heightened uncertainty, tight liquidity and high interest rates, fiscal space is quite limited, and as a result an ambitious fiscal adjustment becomes a grave challenge. In this respect, the aim here was also to stress the importance of macroeconomic conditions for debt dynamics when assessing fiscal sustainability.

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<sup>13</sup> See IMF (2011c). There is little controversy in economic theory that an increase in the marginal tax rates can bring about an increase in the tax revenues only when the economy finds itself at the upward slopping part of the Laffer curve.

<sup>14</sup> See for instance Guerson and Melina (2011).

Explosive public debt dynamics in Greece in recent years form a legitimate base of concern. Any reduction in the debt to GDP ratio adds degrees of freedom to the conduct of fiscal policy, by reducing unproductive public spending and suboptimal use of public resources, while enhancing growth potential. Tax and spending policies should not be solely used as mechanical tools in pursuit of a balanced budget, but with a view to reinforcing the growth *momentum* of the economy, through the redistributive role of fiscal policy and the efficient allocation of resources. At times, fiscal outcomes may diverge from the desired targets for reasons that are not necessarily associated with the optimal management of public finances (e.g. business cycle effects, aggregate demand stimulus, etc.). This should not render fiscal policy ineffective.

The tax-gap estimates presented herein, also reveal that the 'dynamic consistency'<sup>15</sup> is not an automatic process in an economy, even if someone makes a strict assumption that governments exercise discretionary fiscal policy with maximum responsibility and reliability.

Despite our understanding (at least in theory) of the mechanics of fiscal policy, there are still questions today that seek answers in the future. For example, the marked growth slowdown and the sharp reduction of capital flows in the international financial markets have contributed to the deterioration of fiscal positions in many economies, particularly in those seeking to refinance their public debt at 'reasonable' rates. However, the "tax-gap" which has widened in many countries also as a result of the crisis, is extremely difficult to fill under current circumstances, because on the one hand, national budgets deteriorated even further due to higher interest rates and lower growth (*snowball effect*) thus making it extremely difficult to adjust public spending, and on the other hand, due to the governments' inability to further increase tax revenues during crisis times. Thus, at least in the medium-term, the improvement in public finances in our country could only be achieved through a structural overhaul of the tax system, but primarily through improvements in the tax collection mechanisms. Rationalizing the tax system, eliminating tax evasion, reducing generalized and replace them with targeted tax exemptions, and expanding the tax base are some of the measures, which in conjunction with measures to curbing public expenditure (where appropriate and feasible) can generate significant fiscal thrust.

Ideally, any increase in public debt and the budget deficit (should) trigger -almost automatically- the fiscal reflexes of the government. But the persistent divergence of fiscal outcomes from the

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<sup>15</sup> For the concept of dynamic (in)consistency, *à la* Kydland and Prescott (1977), see also Persson and Tabellini (1990) and Garfinkel and Lee (2000).

objectives of the economic policy often results in frequent changes and adjustments in the tax policy, through for instance, the recurrent imposition of additional tax levies/charges (special, *ad valorem* or otherwise), contributing in this way to economic instability, to increased uncertainty in the markets, to further hikes in the borrowing costs and to a series of undesirable distortions to competition. Most importantly, frequent changes in tax policy impose directly on the credibility of the overall fiscal policy, eventually leading to tax exhaustion and in some cases, undermining overall fiscal adjustment efforts.

On the other hand, under conditions of economic stability, on the basis of which lies the stability of the tax system, the economy's conditions are smoother, uncertainty is minimized, tax consistency is ensured, tax collections are maximized and as a result, the fiscal balance improves. Consequently, fiscal policy is gaining degrees of freedom, thus contributing to a more stable and reliable economic environment conducive to entrepreneurship and growth.

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