



Monday, 10<sup>th</sup> October 2016

## The economic impact of the increase in excise duties on fuels in Greece

### Research highlights

*The aim of the study is to assess the impact on the fuel trade sector, the tax revenues and the economy overall in Greece from the increase in excise duties for gasoline, diesel (from January 2017) and heating oil (from October 2016).*

- The domestic market for oil products has been substantially affected by the economic crisis. Both the sales and the employment in the sector have decreased, as the fuel trade companies recorded huge losses.
- Fuel taxes in Greece increased in recent years, reaching one of the highest levels for the same products in the EU. The same holds for the contribution of petroleum products to tax revenues.
- Despite the decrease, the fuel trade sector contributes substantially to the Greek economy in terms of employment, value added and tax revenues. Given the sector's linkages with other sectors of the economy, we estimated that almost € 1.8 billion of value added and 42,400 jobs are directly or indirectly related to the fuel trade sector in Greece.
- The increase in excise duties would have a negative impact for the industry. The average prices of gasoline, diesel and heating oil are expected to increase by about 2.6%, 9% and 7.8% respectively, compared to the case without the tax increases. We estimated that these price increases will lower demand for fuels by 1.1% (gasoline) to 4.1% (heating oil).
- The revenue target of €492 million is unlikely to be achieved. Instead, a shortfall of €84 million in revenues is expected. The shortfall widens significantly in case of a hike in illicit trading or lower than expected economic growth.
- The increase in excise duties would also have a negative impact for the Greek economy. The value added to the economy is estimated to decrease by € 530 million (0.3% of GDP), while 10.7 thousand fewer jobs are expected.
- By taking into account the impact of higher excise duties on economic activity, the revenues shortfall expands further.
- In the current economic conditions, the industry and the economy are very vulnerable to an increase in international oil prices (e.g. from reversal to their long-term mean value).
- Policy implications:
  - Combat illicit trade in all its forms (e.g. smuggling, adulteration of fuels, etc.)
  - Support the financial liquidity of the sector (e.g. by extending the credit period to the companies for the payment of the excise duties)

- Take measures to smooth price fluctuations, such as reducing the excise duties when international prices soar, in order to contain the adverse impact of fuel prices on the economy and the fuel trade sector.

The detailed results of the study are only available in Greek:

([http://iobe.gr/docs/research/RES\\_04\\_10102016\\_PRE\\_GR.pdf](http://iobe.gr/docs/research/RES_04_10102016_PRE_GR.pdf))