



OECD Economic Surveys

Greece

March 2016

OVERVIEW



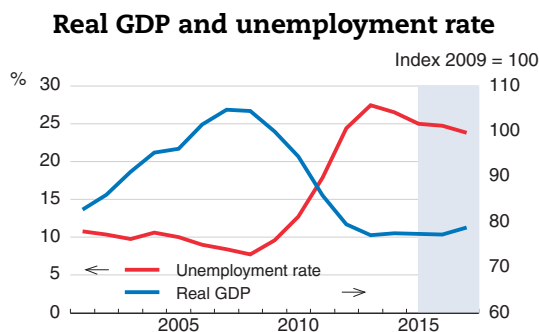
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Executive summary

- *The economy is gradually recovering from a deep recession but high social costs persist*
- *Significant structural reforms have been legislated, but their mix and implementation were uneven*
- *Stronger exports and investment are a key to sustained recovery*

The economy is gradually recovering from a deep recession but high social costs persist

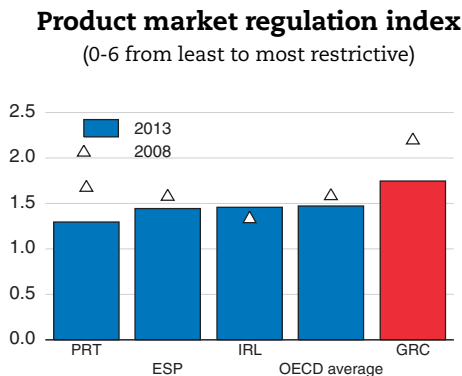


Source: Updated OECD Economic Outlook 98 database.

StatLink <http://dx.doi.org/10.1787/888933337481>

Following a deep and prolonged depression, during which real GDP fell by 26%, the economy is projected to grow again in the course of 2016 and 2017, but a full recovery will take time. Competitiveness has improved markedly, but exports and investment remain weak. The unemployment rate, at 25%, is still high despite a moderate decline since 2013. The depression has pushed many people into poverty and income inequality has increased. Tax and benefit reforms have materially improved the budget position, but the burden of adjustment has been uneven and public debt is still very high. The banking sector has recently been recapitalised, but credit creation remains weak due to the high burden of non-performing loans on banks' balance sheets, and reduced demand for loans.

Significant structural reforms have been legislated, but their mix and implementation were uneven

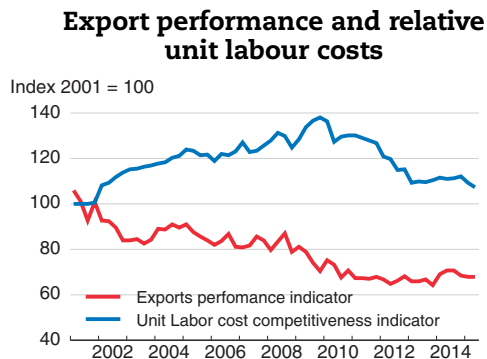


Source: OECD (2013), Product Market Regulation Database.

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Greece has implemented significant labour market reforms, but progress has been less on reducing oligopoly power, the regulatory burden and weaknesses in the public administration, due to administrative capacity constraints, little ownership of past reform programmes and vested interests. The depressed economy, lack of bank finance and remaining structural impediments are holding back the modernisation of the Greek economy.

Stronger exports and investment are a key to sustained recovery



Source: Updated OECD Economic Outlook 98 database.

StatLink <http://dx.doi.org/10.1787/888933337505>

Remaining structural barriers and administrative burdens raise costs of exporting. Greece's integration in global value chains is low due to insufficient investment in human and knowledge-based capital, low inward FDI, the small size of enterprises and the manufacturing sector and weak infrastructure. Network industries have been liberalised but the still restrictive regulation of the energy and transport sectors reduces trade in both goods and services.

Main findings and key recommendations

Top priorities	
Sustainable economic growth is needed for reducing poverty, creating jobs, and ensuring fiscal sustainability.	Adopt key structural reforms to boost growth and enhance administrative capacity to improve overall reform implementation.
The prolonged economic depression has taken a big toll in terms of poverty and employment.	Make economic growth more inclusive by urgently adopting policies to reduce poverty and inequality and boost employment in the short run.
OTHER RECOMMENDATIONS	
Strengthening fiscal policy and financial stability	
Tax evasion is pervasive and reduces revenues needed to support social policies and increase fairness.	Broaden the tax base and strengthen the tax administration by giving it more autonomy and freeing its resources for audits and enforcement.
Weak growth and bank recapitalisation needs have pushed-up the already high public debt.	Ensure that the conditions for gross financing needs for public debt are placed at sustainable levels by continuing to credibly implement the ESM reform program, and thus, if necessary, facilitate reaching an agreement on additional measures with creditors, such as, for example, extended grace and repayment periods
Very high non-performing loans are holding back credit.	Continue improving the bankruptcy framework to speed-up resolution of non-performing loans. Introduce effective incentives and performance targets for banks to monitor their progress in reducing non-performing loans.
Making growth more inclusive	
The social cost of the crisis has been severe, child poverty has increased and housing costs are a burden for many.	Undertake an expenditure review to create fiscal space for providing a comprehensive social safety net and expanding active labour market policies. Implement the guaranteed minimum income, and introduce a targeted school meal program and a housing assistance program targeted at the poor.
Unemployment, especially among the young, is very high and most unemployed remain without a job for a long period of time.	Speed up the modernisation of the public employment service (OAED).
The pension system remains expensive, unfair and complex.	Conclude the reform of the pension system including a review of special regimes and introducing a basic pension in a fiscally sustainable way.
Structural reforms to raise growth and exports	
Inefficiencies in network industries affect competitiveness.	Ease regulations in network industries and strengthen the capacity and independence of regulatory agencies.
Regulatory burden holds back growth and exports.	Implement the 2012 Better Regulation Law.
Exports are a key to raising growth and incomes.	Fully operationalise the national single window for exports.
Contract enforcement is time consuming and costly.	Reduce delays and backload of cases in the judiciary by using more e-justice tools, training judges, expanding out-of-court settlements, model cases and specialized competition courts.

Assessment and recommendations

- *Signs of a turnaround are accumulating*
- *Improving employment opportunities*
- *Strengthening fiscal policy is crucial for a sustained and inclusive recovery*
- *Getting credit growth started again*
- *Stronger structural reforms bring higher growth and jobs*
- *Reforms so far have not boosted growth as expected*
- *Improving the business environment*

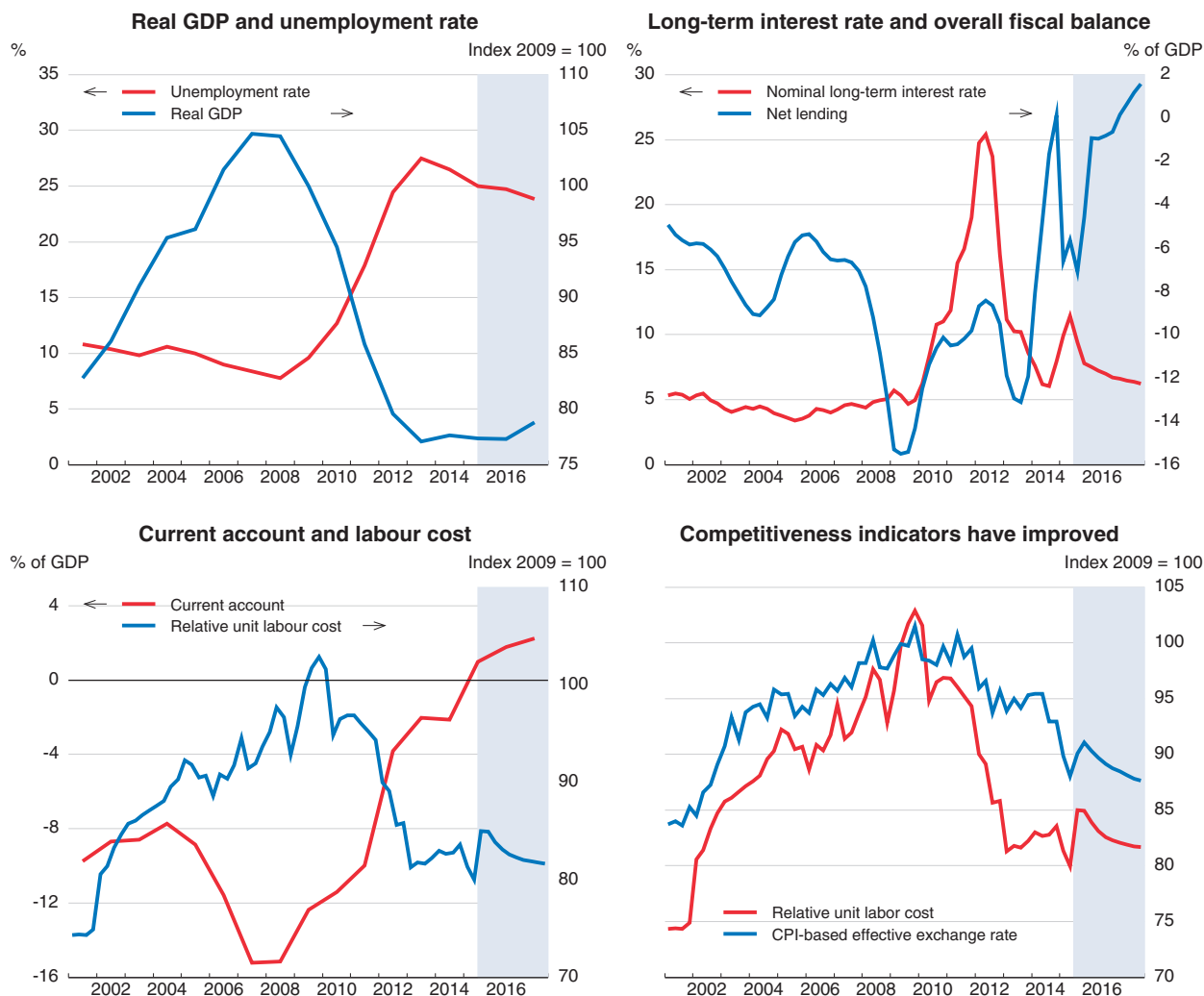
Signs of a turnaround are accumulating

After Greece adopted the euro in 2001, low interest rates fuelled rapid credit growth, high economic growth and rising incomes, but they also distorted risk assessments and lead to a severe deterioration of the fiscal position, largely reflecting rising spending. Wages rose beyond productivity, gradually but persistently weakening competitiveness, undermining exports and expanding the trade deficit (Figure 1). The private sector operated behind complex barriers, fostering informality, oligopolies and inefficiencies. In the fall of 2009, the sharp increase in the budget deficit led to soaring interest rates, loss of access to international capital markets, and economic adjustment programmes with the EU, ECB and IMF.


Under the programmes public debt was restructured, and a large fiscal adjustment and structural reforms were introduced. Tax and benefit reforms strengthened the budget and the long-term sustainability of the pension system. However, the sharp fiscal adjustment aggravated the depth of the depression, and in 2015 GDP was 26% below its 2007 peak. But it also significantly narrowed the fiscal deficit and, along with relief measures, is set to stabilise the public debt at a high 190% of GDP. Structural reforms were strongest in labour markets, which cut household incomes, but also brought wages back into line with productivity, thereby strengthening international competitiveness. Progress in reducing monopoly and oligopoly power was slower, which resulted in more sluggish price adjustment (Figure 1), which held back exports and growth. In fact, lower unit labour costs and little product market reforms gave more power to incumbents.

The social cost of the prolonged depression has been severe. Greece scores low on several dimensions of well-being, particularly regarding material conditions and jobs (Figure 2). The collapse in labour income and pensions, the increased risk of unemployment and uncertainty about the future have significantly reduced life satisfaction (Figure 3). Subjective well-being is now the lowest in the OECD. Housing is another dimension where Greece underperforms. However, other indicators such as personal security, health status and work life balance show some resilience. Furthermore, Greece ranks around the OECD average in education and skills, which could help the economy grow in the future.

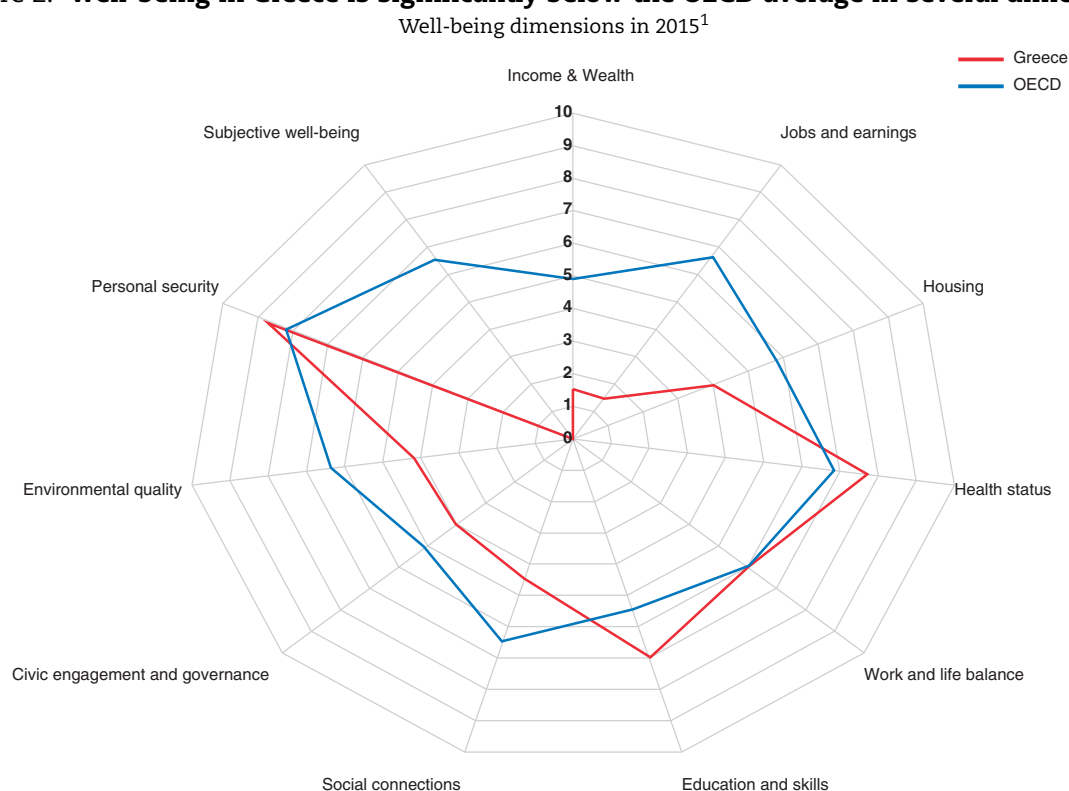
The decline in household income, high long-term unemployment and the lack of a well-designed social safety net have all raised poverty and the share of the population at risk of poverty (Figure 4). Anchored poverty, which measures poverty relative to its pre-crisis income level, almost tripled between 2007 and 2013, and on this measure one third of the population was in poverty in 2013. This is the sharpest increase across OECD countries (OECD, 2015a). High youth unemployment (Figure 5), the growing incidence of child poverty and higher poverty increase the risk that the depression will have permanent effects on employability and prosperity, and might impede intergenerational mobility and long-term opportunities for the younger generations (Causa and Johansson, 2009).

Figure 1. **Unsustainable macroeconomic imbalances built up during the 2000s**

Source: Updated OECD Economic Outlook 98 database.

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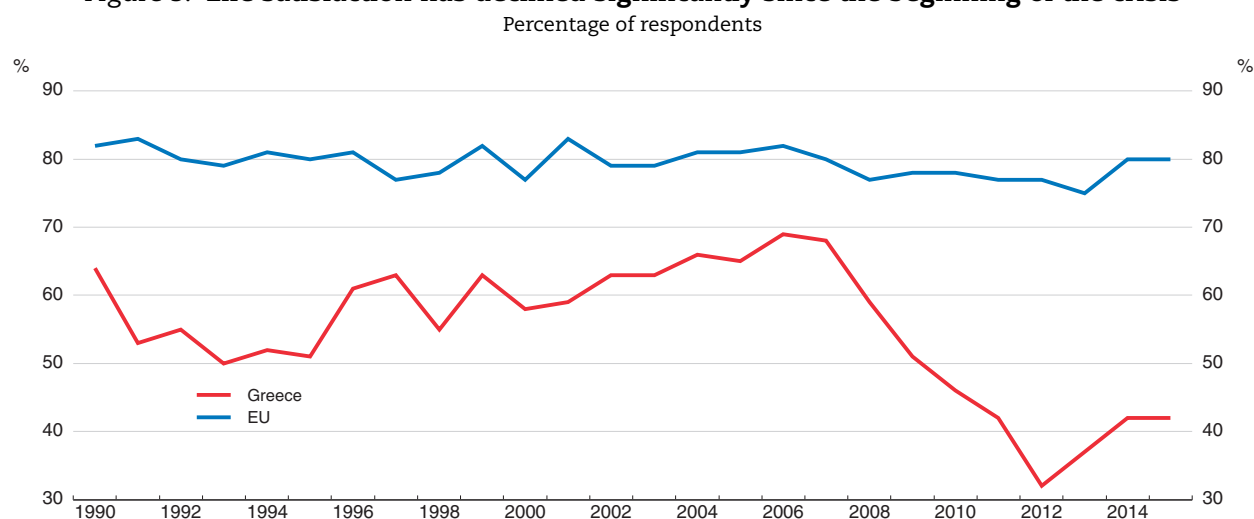
Restoring sustainability and attaining more inclusive growth will not be easy. Measures to rapidly reduce poverty and protect the vulnerable are needed, while reforms to create a more effective social safety net and to make growth more inclusive are implemented. Despite signs of a turnaround and the slower pace of fiscal consolidation agreed in the context of the ESM programme, the macroeconomic and financial situation is still fragile. Confidence is low and banks are burdened with non-performing loans (NPLs). As stipulated in the August 2015 Memorandum of Understanding (MoU) between Greece and its creditors, the fiscal position requires additional measures to deliver medium-term sustainability, amounting to around 1% of GDP for 2017 and 2018, in order to achieve the fiscal targets agreed in the ESM programme. Credit constraints have increased due to deposit flight and a deterioration of the funding conditions for banks in the first half of 2015. Addressing these factors will be necessary for a stronger recovery and a faster reduction in unemployment.

Figure 2. **Well-being in Greece is significantly below the OECD average in several dimensions**

1. Each well-being dimension is measured by one to three indicators from the OECD Better life Indicator set. Indicators are normalised to range between 1 (best) and 0 according to the following formula: $(\text{indicator value} - \text{minimum value}) / (\text{maximum value} - \text{minimum value})$. Each well-being dimension is measured by one to three indicators from the OECD Better life Indicator set.

Source: OECD (2015), *Well-Being Indicators database*.

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Figure 3. **Life satisfaction has declined significantly since the beginning of the crisis**

Note: The chart shows the responses to public opinion polls made by the European Commission about life satisfaction. Data are the the average per year for the sum of the 'Satisfied' and 'Very Satisfied' fractions of the population.

Source: European Commission, Eurobarometer.


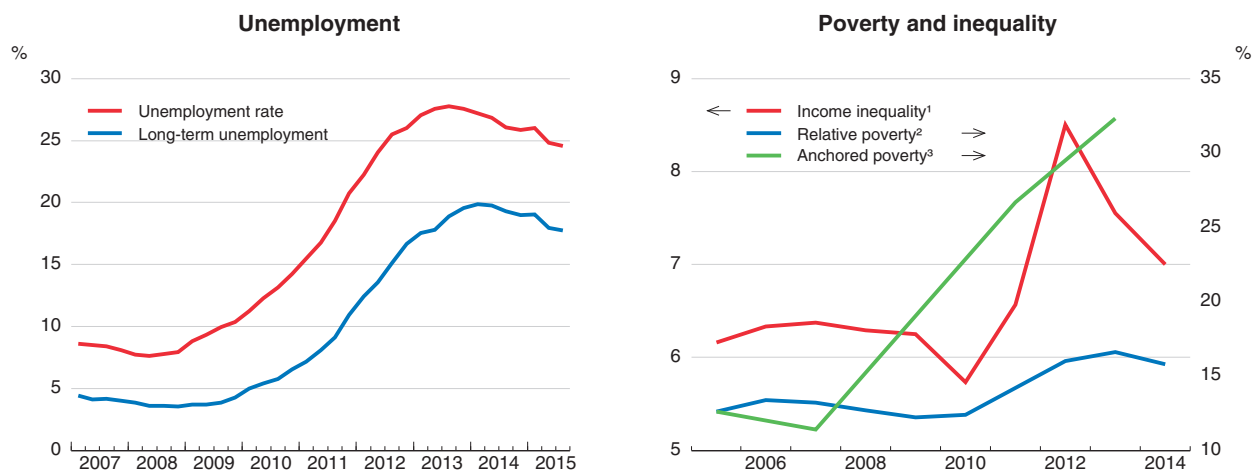
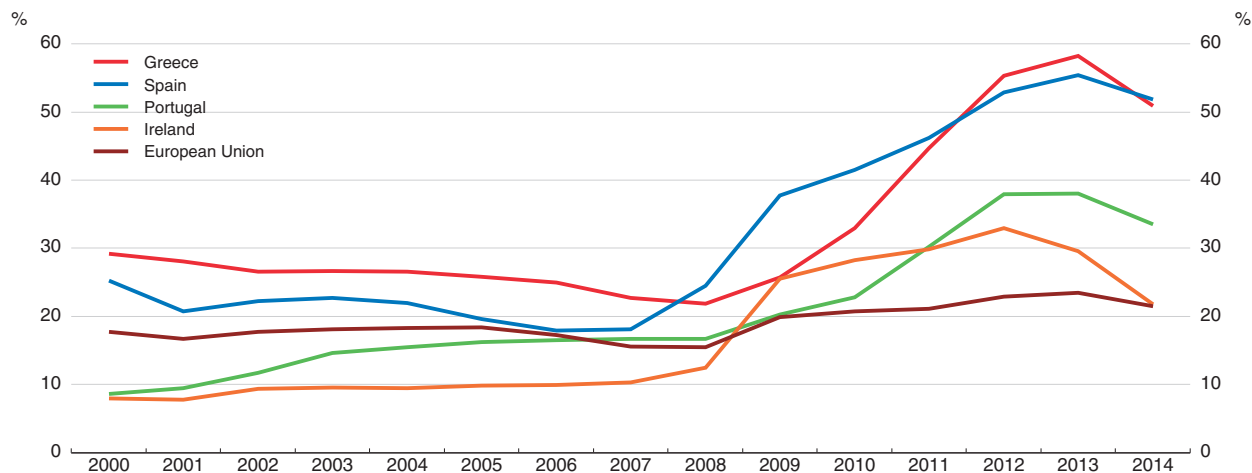
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Figure 4. **The social cost of the crisis has been very high**

1. Measured as the ratio between the share of national income received by the ninth decile and the first decile.
2. Relative poverty rates after taxes and transfers (threshold of 50% of the median income).
3. The poverty line is fixed at 50% of median equivalised household disposable income in 2005. Data are available only for 2005, 2007, 2011 and 2013.

Source: OECD National Account database; OECD (2015), *In It Together: Why Less Inequality Benefits All*; ELSTAT; Eurostat.

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Figure 5. **Youth unemployment remains very high**

Note: Youth unemployment rate is based on the 15-24 class age of the population.

Source: OECD (2015), Labour and social protection directorate database.

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Reforms are needed to create a more dynamic economy. Product market reforms that reduce monopoly and oligopoly power in key economic sectors and efforts to reduce the regulatory burden should gradually raise output. These reforms will help to boost exports, which will be an indispensable engine for growth and job creation. Still, despite relatively swift approval of key reforms in recent months, the overall track record in implementing legislated reforms since 2010 has been weak, due to capacity constraints and opposition by vested interests.

The main messages of this Survey are:

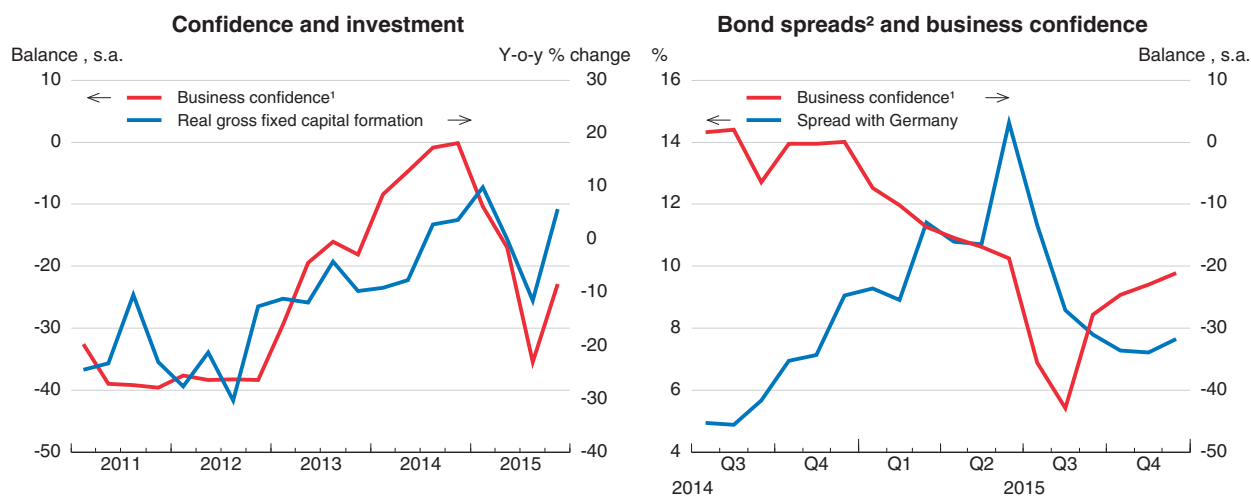
- Boosting economic growth is fundamental to reducing poverty and unemployment, and addressing fiscal weaknesses. Fully implementing key structural reforms would significantly boost output over the next decade. This additional growth would also bring much needed jobs and generate part of the resources needed to develop a better social safety net.
- Policies to reduce poverty and inequality are urgently needed to revert the profound social costs of the economic crisis. Making sure that everyone pays their fair share of taxes by fighting tax evasion is fundamental for financing these policies.
- Further deep reforms, with an emphasis on product market reforms, are needed to shift the economic structure towards exports and the expansion of new enterprises. Making sure that reforms are fully and properly implemented is key for the success of these reforms.

The recovery has faced some setbacks, but extreme downside risks have receded

Growth turned positive in 2014, but increased political uncertainty and prolonged negotiations with creditors sharply deteriorated business and consumer confidence undermined domestic demand and led to a prolonged flight of deposits. To ensure the stability of the banking system, a bank holiday and capital controls were imposed in July 2015, limiting cash withdrawals from banks and cash transfers abroad. High levels of non-performing loans and deposit outflows during the first half of 2015 have been constraining credit. While capital controls have been eased gradually, they have added to the already tight financial situation facing many enterprises. According to the National Bank of Greece (NBG), SMEs have been more impacted than larger enterprises, with a year-on-year 15% decline in their sales in Q3 2015 compared to around 8% for large enterprises. The NBG's business confidence indicator for SMEs deteriorated also significantly in the second half of 2015. Construction and retail trade have been the most affected while chemicals, IT services and tourism were more resilient. Nonetheless, for now, the impact has been relatively modest as SMEs largely anticipated capital controls and kept cash and increased inventories (NBG, 2016). Despite some resilience, there are signs of a moderate decline in output for 2015. Unemployment is still very high, although it has been gradually falling. Employment is growing mainly in tourism, wholesale and retail sales, professional services, but also in manufacturing. Inflation was negative in 2015 due to large excess capacity and ongoing price adjustments from product and labour market reforms.

The new financing programme agreed with the European Stability Mechanism in 2015 has removed short-term fiscal financing uncertainties and led to a new slower pace of fiscal consolidation, which will be good for growth. Together with diminished political uncertainty after the September 2015 elections and the gradual softening of capital controls, confidence has improved and bond spreads have been reduced (Figure 6).


Output contracted in 2015 due to weak domestic demand, but is set to rebound in the second half of 2016 as confidence recovers and investment, consumption and exports gain some momentum. Despite the improved performance in the last quarter of 2015, mainly due to a rebound in investment, the deep dip in the third quarter of 2015 (-4.7% seasonally adjusted annualised growth rate) will still affect annual growth in 2016 because of the carry over effect. The recovery is projected to gain further strength in 2017, as structural reforms

Figure 6. **Confidence remains weak although tail risks have receded**

1. Simple average of the 4 confidence indicators for Business: Manufacturing, Construction, Retail and Services.

2. 10 years-bond spread with respect to Germany.

Source: OECD National Accounts database; OECD STAN Database; and Thomson Reuters (2015), Datastream database.

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and stronger external demand benefit investment and job creation. Export growth will help the current account, even as domestic demand and imports recover. Inflation will only gradually move into positive territory as large economic slack will continue for some time, while VAT changes will contribute to raising headline inflation transitorily in 2016 (Table 1).

This outlook is subject to both upside and downside risks. On the upside, swift and full implementation of structural reforms, which remains a challenge, and faster improvement in the liquidity and financing conditions of the banking system would boost confidence and lead to a stronger and faster economic recovery. Successful negotiations to lower the gross financing needs of the public sector could significantly improve the medium-term outlook of the economy by addressing debt sustainability risks. On the downside, larger negative effects of the credit crunch on domestic demand and lower than expected impact of reforms on exports and growth would negatively impact economic activity. Rising global risks such as weaker global trade and slowing growth in China would reduce exports as Greece is a leading global shipping provider, and the sector accounts for 20% of total exports. Weaker economic growth in the rest of the euro area, the destination of 30% of Greek exports, would increase deflationary pressures and undermine debt dynamics. Rising risk aversion in global financial markets may lead to a deterioration in financing conditions for the sovereign, banks and companies.

A number of other shocks would have large effects on the economy, but cannot be sensibly incorporated into the macroeconomic projections, because they are difficult to quantify or imply a large discrete change in outcomes (Box 1). The refugee crisis could also pose significant problems for Greece. Official estimates suggest a preliminary cost of around 0.35% of GDP in 2015. If the foreseen contribution of the European Union turns out to be insufficient, it would result in added pressure on the Greek budget. The realisation of the other exogenous risks would also have fiscal implications. In light of the fragile state of the economic recovery, it would be important to avoid further fiscal tightening if possible and thus reverse the benefits which came with the agreed slowing pace of fiscal consolidation.

Table 1. **Macroeconomic projections**

	Current prices € Billion	Percentage change, volume (2010 prices)				
	2012	2013	2014	2015	2016	2017
GDP at market prices	191.4	-3.1	0.7	-0.3	-0.1	1.9
Private consumption	133.7	-2.6	0.7	0.2	-0.1	1.3
Government consumption	41.7	-5.5	-2.4	-0.1	-2.1	-0.8
Gross fixed capital formation	24.1	-9.3	-2.6	0.9	8.6	5.7
Final domestic demand	199.5	-4.0	-0.3	0.3	0.5	1.4
Stockbuilding ^{1, 2}	0.5	-0.2	1.4	-1.7	-0.6	0.0
Total domestic demand	200.0	-3.7	1.1	-1.2	-0.3	1.4
Exports of goods and services	55.0	1.7	7.4	-3.8	-1.7	5.5
Imports of goods and services	63.7	-2.9	7.8	-6.9	-1.9	3.6
Net Exports ¹	-8.7	1.5	-0.3	1.2	0.1	0.5
<i>Memorandum items</i>						
GDP deflator	-	-2.9	-2.3	-0.6	-0.3	0.6
Harmonised index of consumer prices	-	-0.9	-1.4	-1.1	0.5	0.5
Private consumption deflator	-	-2.0	-2.8	-1.3	-0.1	0.8
Unemployment rate	-	27.5	26.5	25.0	24.7	23.8
General government financial balance ^{3, 4}	-	-12.5	-3.6	-6.0	-0.8	0.9
General government gross debt ⁵	-	184.2	182.9	190.2	191.6	187.1
General government debt, Maastricht definition ³	-	177.3	179.0	183.9	123.3	178.6
Current account balance ⁶	-	-2.1	-2.1	1.0	1.8	2.2
Potential output growth	-	-1.1	-1.0	-0.5	0.1	0.5

1. Contributions to changes in real GDP, actual amount in the first column.

2. Including statistical discrepancy.

3. National Accounts basis, as a percentage of GDP.

4. The data for the years 2012 and 2013 include the total impact of government support to financial institutions. Data also include Eurosystem bank profits on Greek government bonds remitted back to Greece. For 2015-17, data include the estimated government support to financial institutions and privatisation proceeds.

5. As a percentage of GDP at market value.

6. On settlement basis, as a percentage of GDP.

Source: Updated OECD Economic Outlook 98 database.

Box 1. Possible shocks to the Greek economy

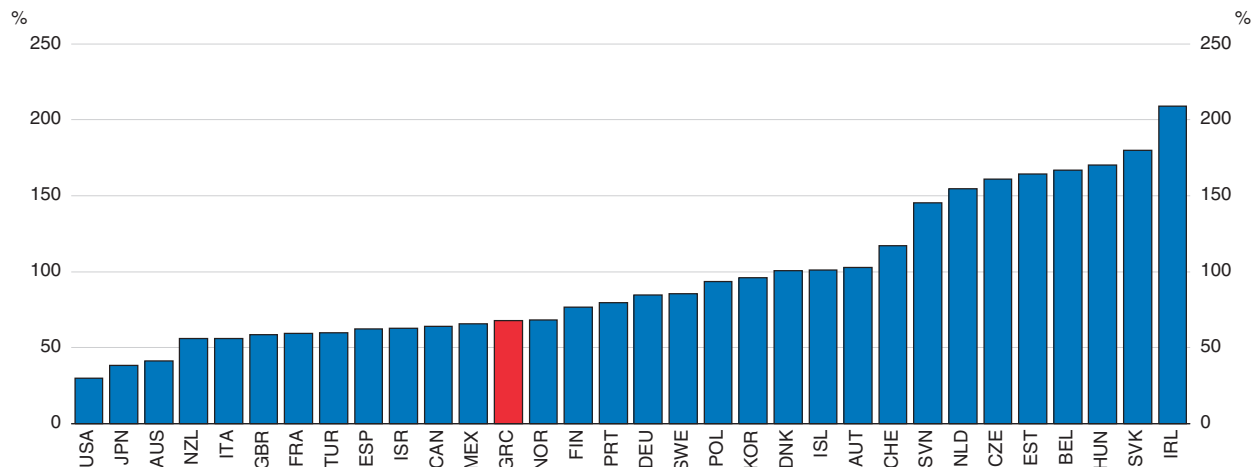
Potential shock	Possible outcome
The refugee crisis further intensifies.	The broader regional economy would suffer with severe implications for growth and fiscal balances.
Severe difficulties in the implementation of the ESM programme.	The risks of this happening have greatly diminished, but if it were to happen, it would increase uncertainty with severe repercussions on the Greek economy and potential contagion in the euro area.

Strong exports and investment are the keys to sustained recovery

Greece has relatively low exports and imports, given its rather small size (Figure 7), has had a persistent trade deficit until recently, and is not well integrated into global value chains (Figure 8). As domestic demand is likely to remain weak for some time to come, boosting exports will be important for generating growth and jobs. Despite recent improvements, and in contrast to Portugal and Spain, export performance deteriorated significantly in the last decade particularly in the service sector. Shipping, which accounts

Figure 7. Trade openness is low compared to OECD countries

2014

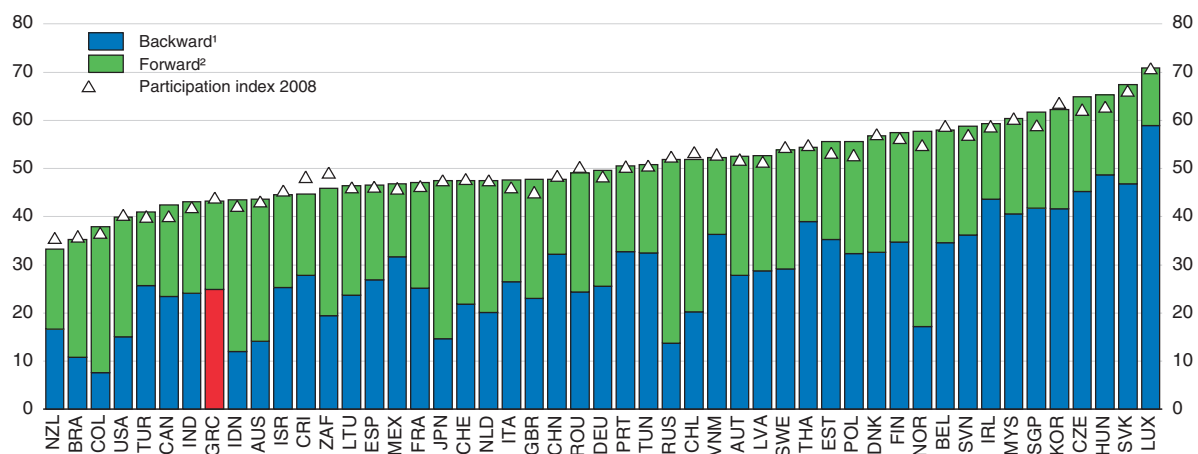


Source: OECD National Accounts database.

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Figure 8. Participation in global value chains is weak

As a share of gross exports, 2011



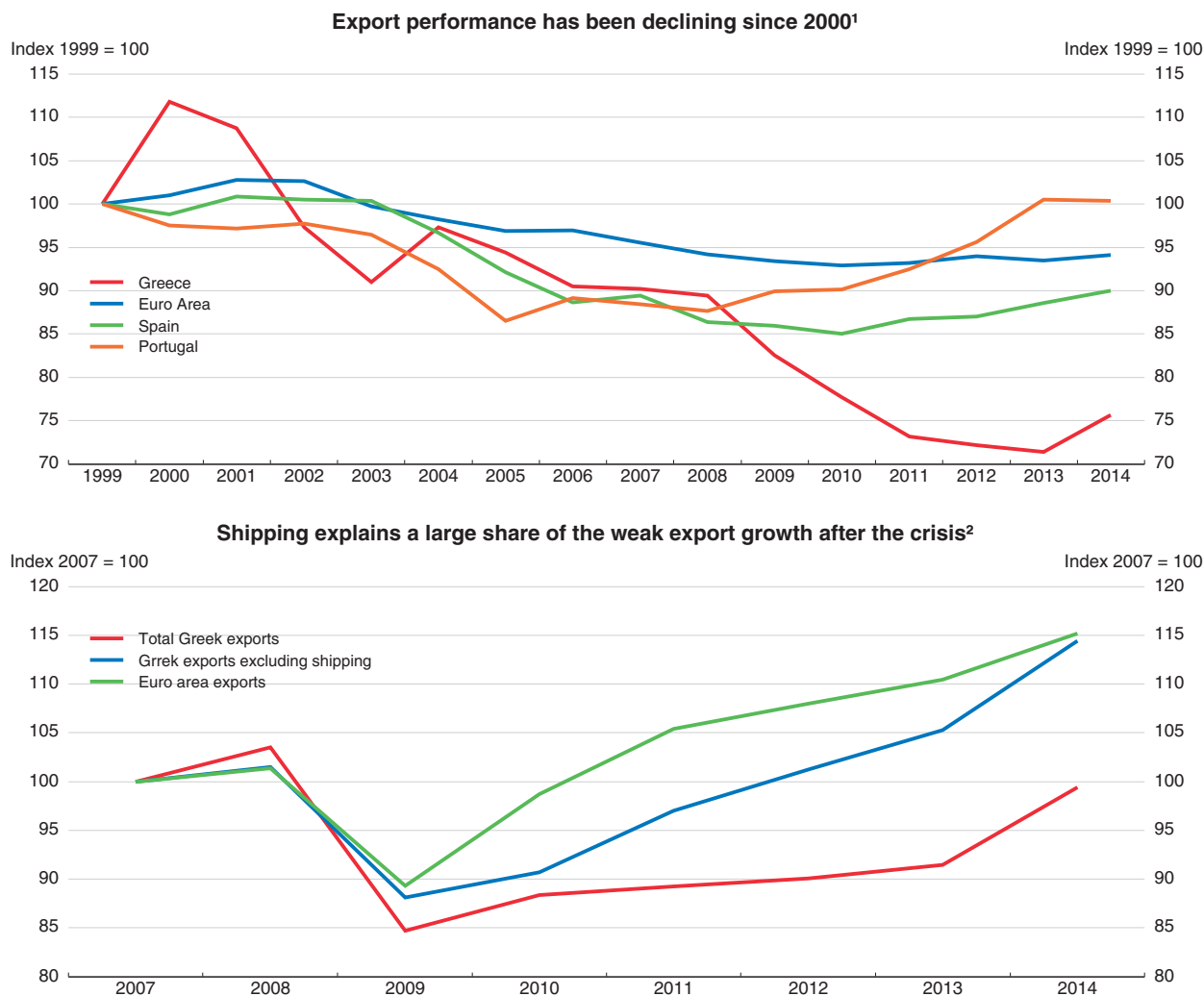
1. The indicator measures the value of imported inputs in the overall exports of a country (the remainder being the domestic content of exports). This indicator provides an indication of the contribution of foreign industries to the exports of a countries by looking at the foreign value added embodied in the gross exports.
2. The indicator provides the share of exported goods and services used as imported inputs to produce other countries' exports. This indicator gives an indication of the contribution of domestically produced intermediates to exports in third countries.

Source: OECD International Trade database.

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for 20% of Greek exports, suffered from slow world trade growth (Figure 9). The decline in unit labour costs in Greece since the beginning of the crisis has restored cost competitiveness, but the response of exports has been sluggish in part because prices did not adjust as fast, severe liquidity constraints of exporters and lack of investment in export industries. Non-cost competitiveness is also weak as Greek goods exports are concentrated in low-tech products.

Figure 9. **Export performance has been weak, but export growth excluding shipping has been in line with euro area exports since 2009**



1. Export performance is calculated as the ratio of exports of goods and services to export market.

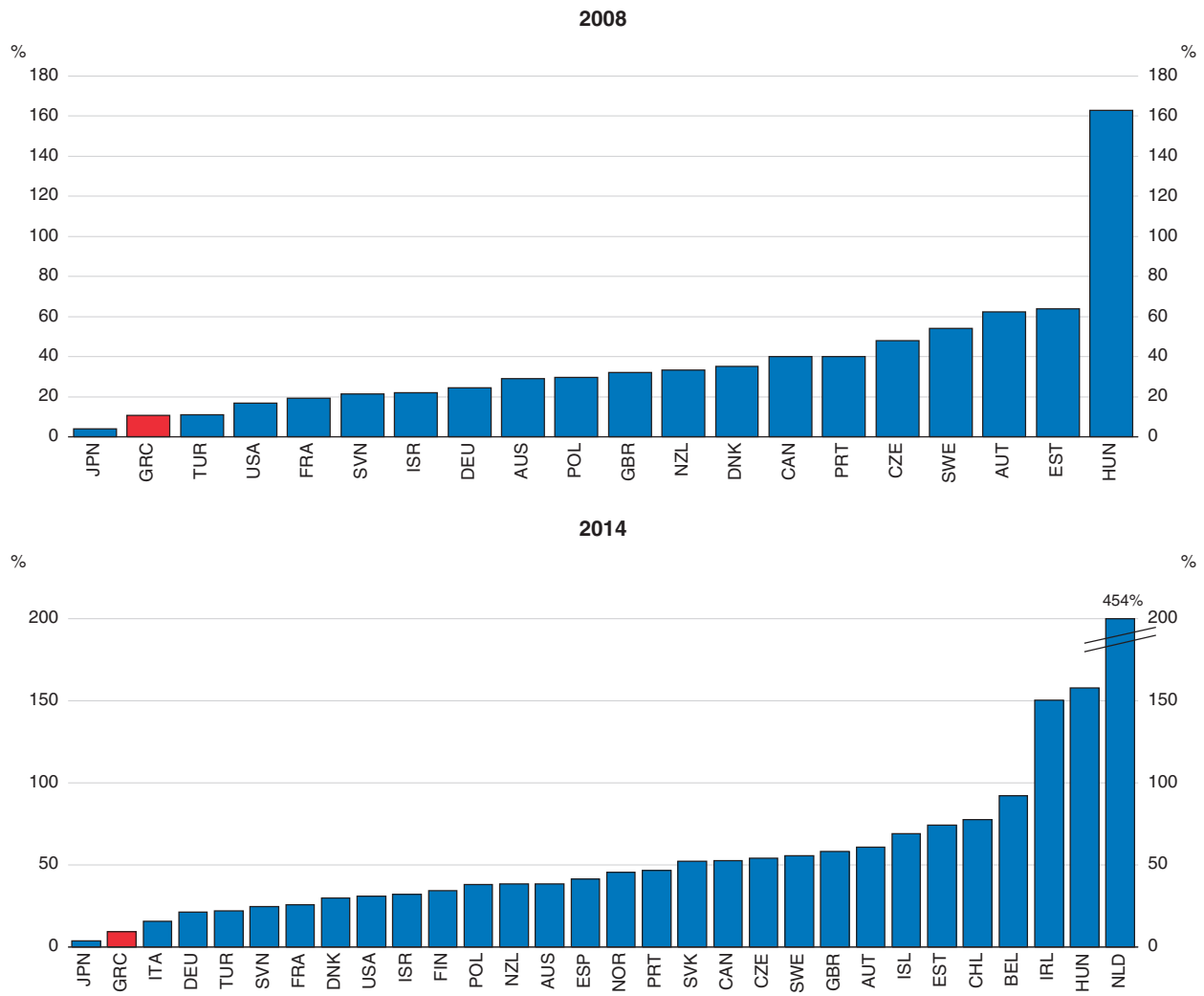
2. Real exports of goods and services. Nominal exports on shipping come from the Bank of Greece and have been deflated by the price of goods and services.

Source: OECD Economic Outlook 98 database.


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More investment would support exports and growth. For example, investments in infrastructure and logistics would make exports more competitive (see below), while they could have positive demand spillovers. However, financing investment is a difficult task in a context of little fiscal space, weak credit, a higher corporate income tax and remaining structural rigidities. Therefore, in addition to implementing structural reforms that boost growth and undertaking reforms that take advantage of the better external demand conditions, measures to accelerate private investment, particularly foreign direct investment, which is very low in Greece (Figure 10), are needed. In this sense, concessions and privatisations can be a useful tool. For example, making better use of the vast stock of idle public land through concessions or privatisations would crowd in private investment

Figure 10. **Foreign direct investment in Greece is low**
Inward position as percentage of GDP



Source: OECD (2015), Globalisation database.

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in logistics and infrastructure as well as tourism real estate. The multiplier effect of these types of investments is estimated to be large (IOBE, 2012), and it could help the tourism sector and facilitate export activity more generally. Liberalising further the network industries would also increase the quantity and quality of infrastructure investment (see below). Moreover, EU structural funds should be better exploited to boost investment in education, research and innovation, and information and communication technology to enhance skills and human capital.

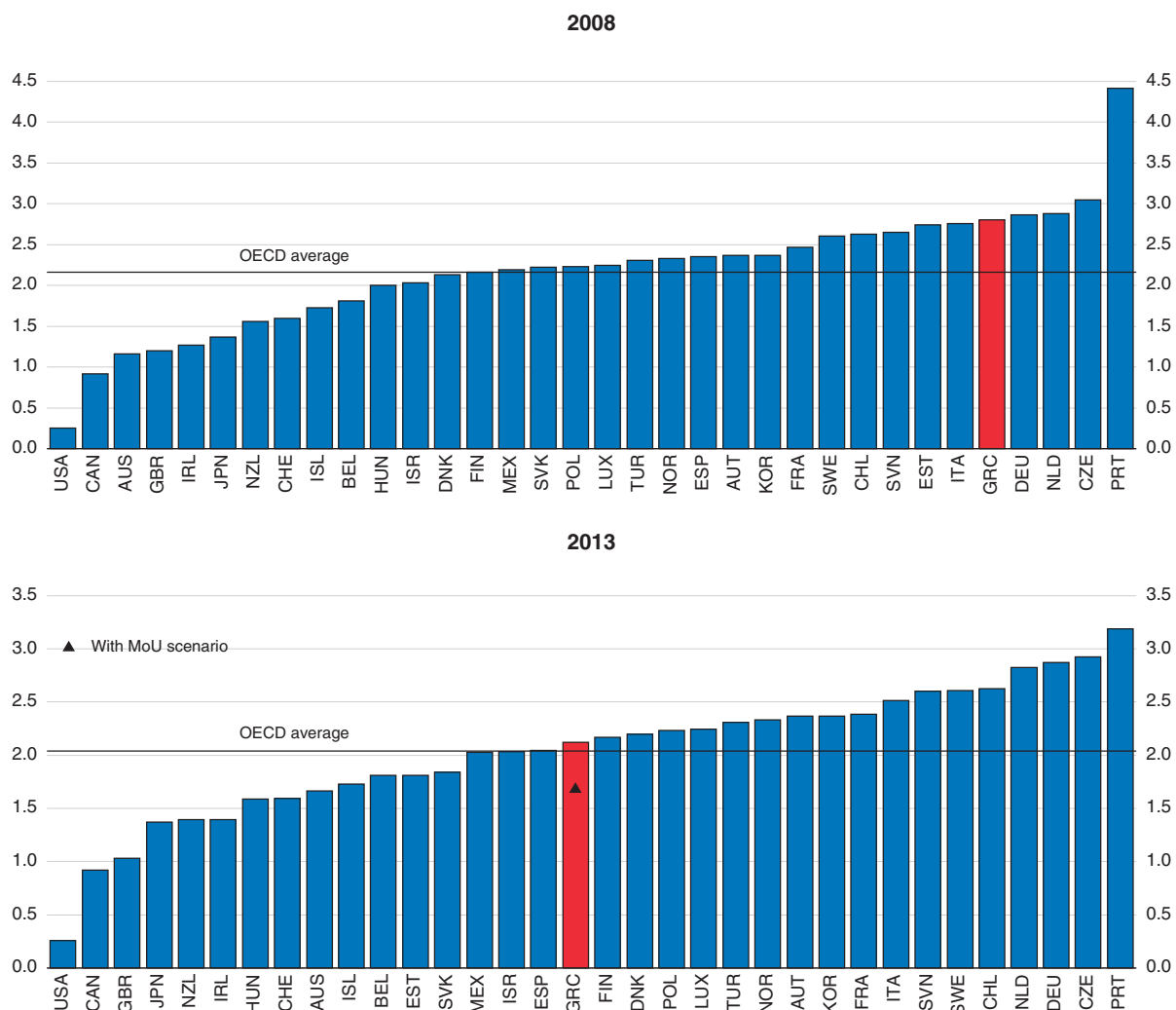
Public-private partnerships (PPP) would increase investment and operational efficiency if they brought private-sector expertise and capital to bear. PPP should not be used as a way to relax budget constraints. It is important that risk in these projects is correctly assessed and appropriately allocated between the public and private sectors, and that the explicit and implicit fiscal costs be transparently accounted for. The implementation of the Juncker Plan, which aims at providing an enabling regulatory

environment for investment, would help in this regard. Finally, reducing the administrative burden for business further will help attracting foreign direct investments which are particularly low in Greece.

Improving employment opportunities

Before the crisis Greece had one of the most restrictive employment protection legislation (EPL) in the OECD (Figure 11). Long notice periods, large severance payments, and restrictions on collective dismissals reduced the job reallocation and creation processes. Moreover, the wage bargaining framework, in particular the automatic extension of collective agreements, meant wages could not adjust to firm-specific needs and productivity developments, and that new firms could not gain a foothold from incumbents by lower wage costs.

Figure 11. **Labour market regulations have eased**
Employment Protection Legislation (Index scale of 0-6 from least to most restrictive)



Note: The MoU scenario implies reducing restrictions on collective dismissals to the level of Finland, which has the lowest overall restrictiveness within the EU.

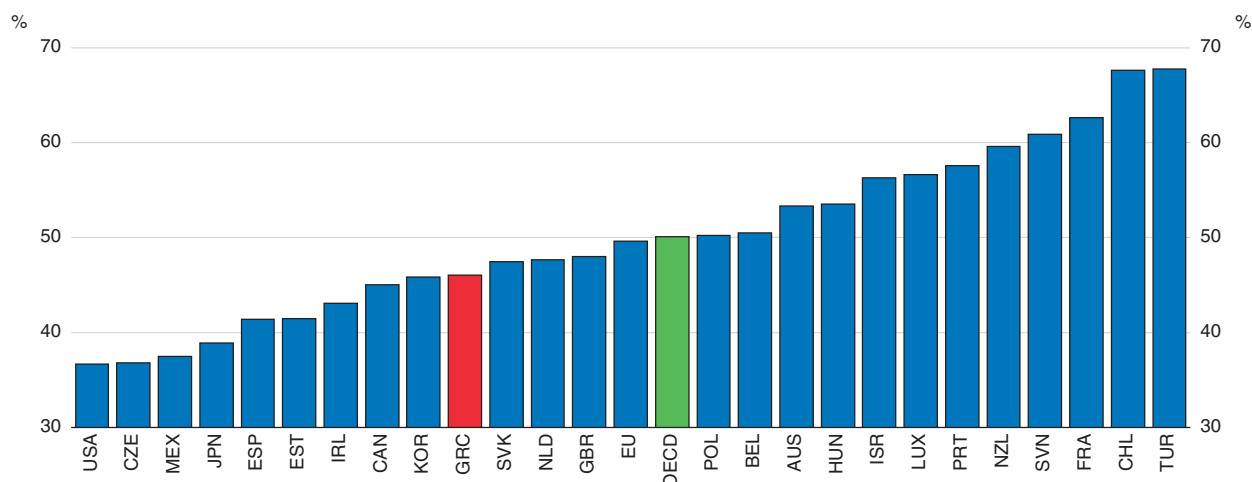
Source: OECD (2015), Labour and social protection directorate database.

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Recent labour market reforms have focused on introducing more flexibility. The minimum wage was reduced by one third in nominal terms at the end of 2011 and a lower wage for vulnerable groups was introduced. The minimum wage setting changed from a bargaining process to being set directly by the government. Yet, the ratio of the Greek minimum wage for single workers with no experience to the median wage currently stands well below the OECD average (Figure 12). However, the minimum wage increases with seniority, a unique case among OECD countries, which makes the effective minimum wage higher. The minimum wage of workers without experience less than 25 years old is EUR 511 per month, while the minimum wage for workers over 25 years old without experience amounts to EUR 586 per month. However, for each three years of experience it increases by EUR 58 up to nine years and for some workers married, there is an additional premium of EUR 58, such that it can go up to EUR 818. The revision of the minimum wage is due in 2016. It should be looked at in light of productivity and fairness considerations, including a revision of the seniority premium. Firm-level wage bargaining has become more common, as restrictions to firm-level agreements were lifted. EPL was also eased by reducing the prior notice period, cutting and capping severance payments and extending the probation period for new hires, bringing Greece close to the average OECD performance (Figure 12).


Figure 12. **The minimum wage in Greece is relatively low**

Minimum wage as percentage of median wage, 2014



1. For Greece single, worker with no work experience.

Source: OECD (2016), *Employment Outlook database*.

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Labour market reforms are already changing labour market dynamics. Wages have become more responsive to changes in local unemployment rates and the labour market now seems sufficiently flexible to ensure a job-rich recovery. There are still restrictions to collective dismissals and to using fixed-term contracts, but bringing collective dismissal practice to the EU best practice would increase output by only an estimated 0.2% in ten years.

While the depression has pushed many people into unemployment, the benefits in terms of job creation of less restrictive EPL in general materialise only gradually, especially for low-income individuals and in the context of depressed aggregate demand (Cournède and Garda, 2016). As a result, many workers and youth have become long-term unemployed. As the economy expands again a key challenge will be to get the long-term unemployed back to work.

Maximising the effective use of EU funding through the European Social Fund and the Youth Employment Initiative would help creating more training opportunities in the short term. In the past, Greece has faced delays in executing the allocated funds, due to capacity constraints and more recently also financial constraints to provide the national co-financing part. The latter constraint has been relaxed by reducing the co-financing requirements. However, to make fast and efficient use of the available funding, it is important to speed up the preparation and selection process of projects, improve budget planning and more coordination at the centre of government level of all EU funding. This would allow reaching more unemployed people with the planned guaranteed employment support scheme that include active labour market measures, vocational education and training programmes, more traineeships and apprenticeships, and a voucher programme to help create jobs for young workers. More recently, several of these schemes have already been launched.

The public employment service (OAED) lacks capacity to evaluate its programmes and its collaboration with the private sector is weak (OECD, 2013). A plan has been formulated to modernise OAED, which could prove crucial to reintegrating the unemployed into the labour market. To increase the relevance of VET offers and anticipate future needs, plans should be evaluated systematically, employers involved more, and a system to detect current and future needs in terms of skills needs to be created. Such measures would smooth the transition from the education system to the labour market, which was already difficult before the crisis (OECD, 2010a).

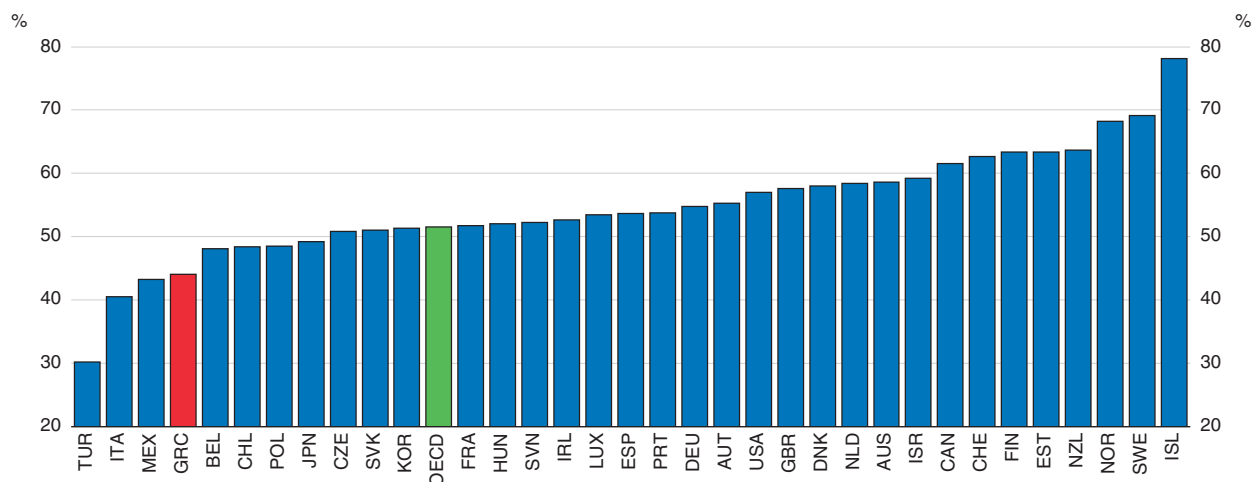
Relatively few women are employed or are seeking work in Greece (Figure 13), reflecting public policies regarding childcare, as well as social norms. Low public expenditure on childcare and the resulting poor supply of childcare services, and limited flexible work arrangements, despite recent progress, both reduce the opportunities for child carers, who are overwhelmingly women, to work. Offering more affordable childcare would expand women's work choices, and by boosting family incomes could reduce the transmission of poverty and inequality of opportunities from parents to their children.

Strengthening fiscal policy is crucial for a sustained and inclusive recovery

Fiscal consolidation has been very large, but is set to slow

Reforms introduced to achieve fiscal consolidation improved the overall fiscal balance of the general government by more than 18 percentage points of GDP and led to an overall general government balance of -3.6% of GDP in 2014 and a small primary balance surplus of 0.2% of GDP. The underlying overall surplus was around 1% of GDP by end 2014. The adjustment was more than twice that of other European countries than underwent a similar process, such as Spain, Portugal and Ireland (Figure 14). In cyclically-adjusted terms, the primary balance was 5% of GDP in 2014 (Figure 15). The programme initially put emphasis on increasing tax revenues by new taxes, increasing rates and broadening the tax base; but overall tax compliance remained low. As the crisis deepened, more measures were taken to also curb expenditures.

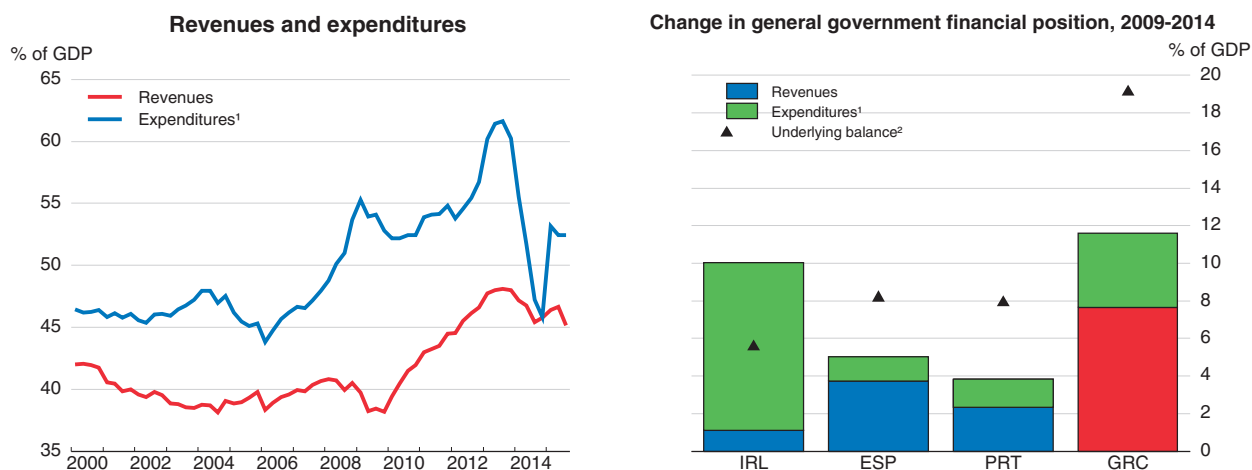
Figure 13. **Female labour market participation in Greece continues to be low**
2014



Source: OECD (2015), Labour and social protection directorate database.

StatLink <http://dx.doi.org/10.1787/888933336959>

Figure 14. **Fiscal consolidation has been large**



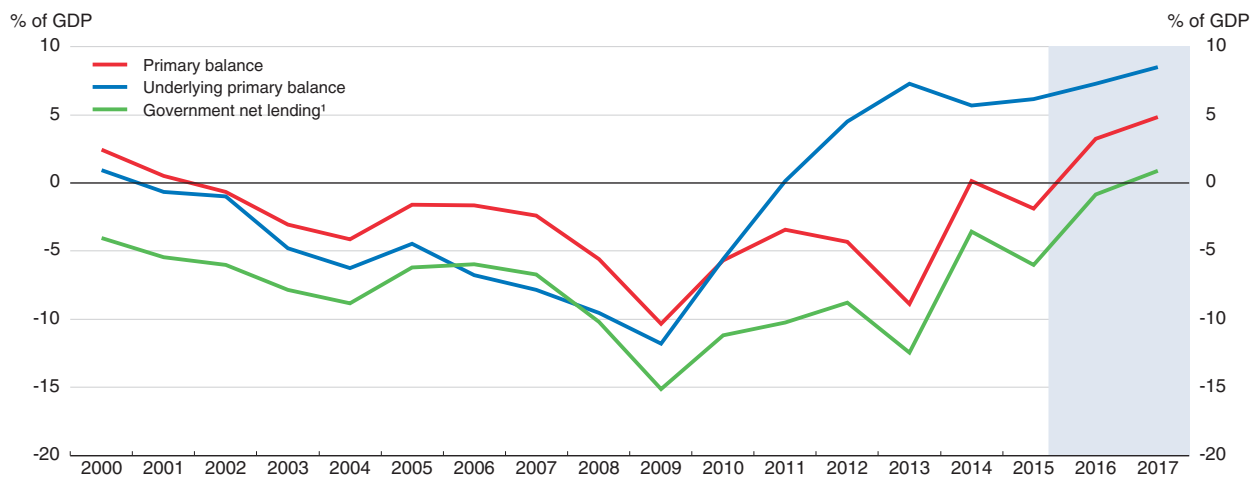
1. Includes interest payments.

2. Includes interest payments, in percentage of Potential GDP.

Source: OECD (2015), *Government at a Glance*; OECD Economic Outlook 98 database.


StatLink <http://dx.doi.org/10.1787/888933336960>

The fiscal deficit deteriorated temporarily in 2015 due to bank recapitalisation (Figure 15). However, the primary balance is projected to reach its targets of -0.25% of GDP in 2015 (excluding the bank recapitalisation), 0.5% of GDP in 2016 and 1.75% of GDP in 2017 as agreed in the 2015 MoU. From 2018 onwards, the primary balance target is 3.5% of GDP. The underlying fiscal stance in 2015 was slightly accommodative, but in 2016-17 consolidation of almost 1 percentage point of GDP per year is foreseen (Figure 15). Although not negligible, the pace of consolidation is appropriate and it is substantially slower compared to the recent past. The planned adjustment focuses on reducing mainly

Figure 15. **The pace of fiscal consolidation is projected to slow**

1. Includes the banks recapitalizations in 2016 and privatisation proceeds.

Source: Updated OECD Economic Outlook database 98.

StatLink  <http://dx.doi.org/10.1787/888933336974>

pension entitlements and most revenue measures concentrate on indirect taxes. According to the international evidence on consolidation efforts in other OECD countries (Cournède et al, 2013), the mix of the planned measures is relatively growth-friendly and equitable.

Strengthening the social safety net

Developing a modern and sustainable social safety net will take considerable time and effort. As part of the 2015 MoU, the government has committed to undertake a comprehensive review of its social policies with the technical assistance of the World Bank. This will allow areas for improvement to be identified and social programmes to be better targeted, improving the overall effectiveness, and coherence of the benefit system. Furthermore, the foreseen general government expenditure review will identify savings through which the new comprehensive social safety net will be financed. However, in the meantime it is important to take policy actions that start reverting the social crisis as discussed below.

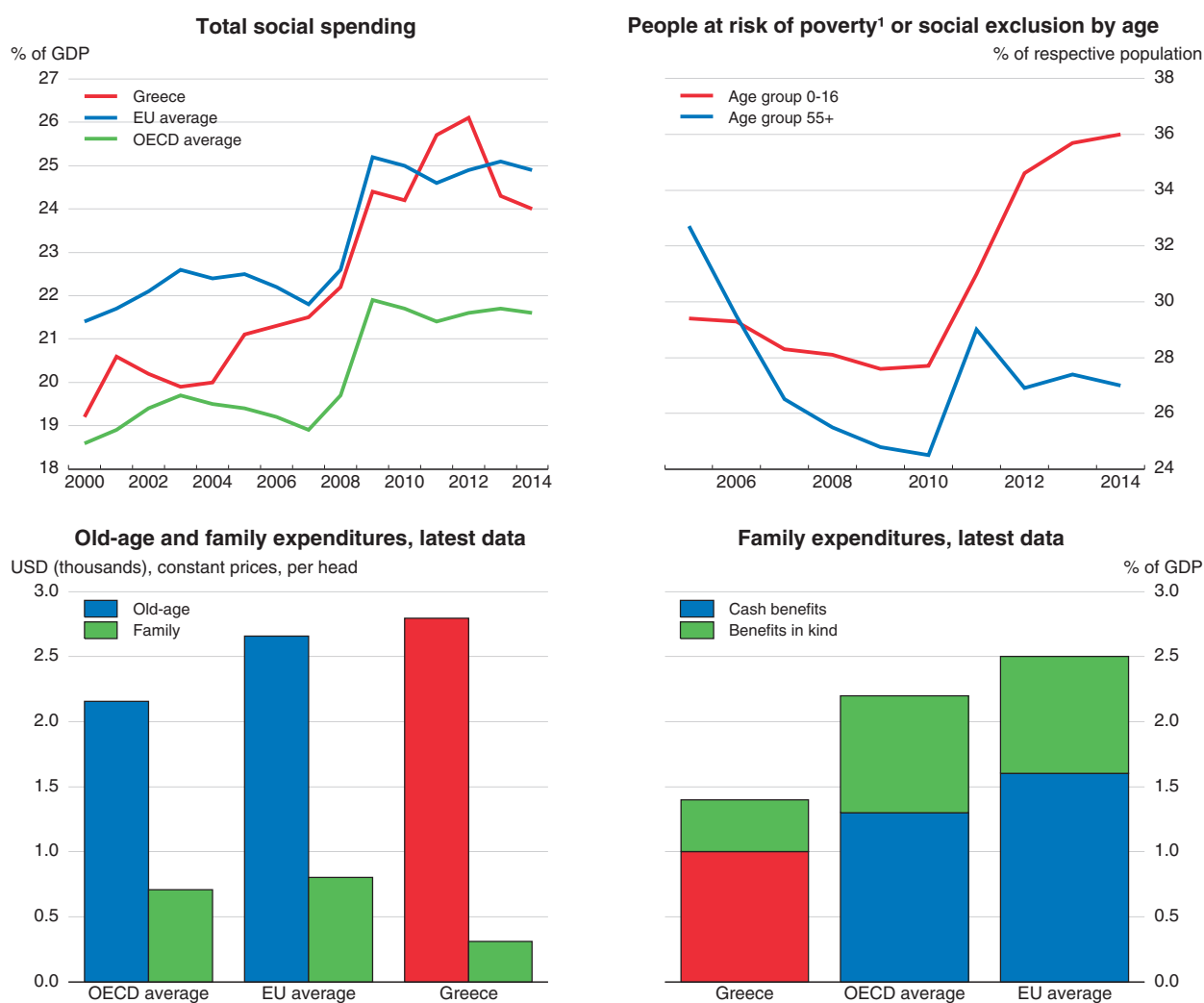
Tax-benefit reforms taken during the crisis were overall progressive, placing a higher burden on high incomes or affected households at the top of the income distribution, mitigating the effects of the recession, as shown also in the 2013 *Economic Survey*. Benefit reforms focused on better targeting expenditures. In this sense, changes in child benefits, pensioners' solidarity contribution, and cuts in public sector pay were progressive (Leventi and Matsaganis, 2016). However, other measures, particularly on the revenue side, such as the introduction of an emergency property tax in 2011, the cut in unemployment benefits in 2012, the changes in personal income tax in 2013 and the changes in property taxation in 2014 fell disproportionately on those with lower incomes (Leventi and Matsaganis, 2016).

Social expenditure remains concentrated on old-age, mainly pensions, while the poverty profile has been shifting significantly. Child poverty is increasing, while old-age poverty is declining, at least when considering the people at risk of poverty (below 60% of median income). Some of the recent changes in benefits, notably the single child benefit, numerous family benefits and the social dividend, have mitigated but not reversed child

poverty. Social expenditure remains around the EU average as share of GDP. The latest available detailed figures on social expenditures from 2012 show that family-related social benefits were low in per capita terms, while old-age benefits were generous compared to the OECD and EU averages (Figure 16). It is important to note that since then, fiscal consolidation measures have reduced social expenditures by two percentage points of GDP, mainly in the area of pensions.


Implementing the means-tested guaranteed minimum income (GMI) scheme –under which households with low income and little assets would be eligible for income support– would help to ease some of the social consequences of the crisis. It will replace some of the emergency ad hoc programmes (most importantly food stamps, and energy and rent

Figure 16. **The composition of social expenditures does not match the changing social challenges**



1. This indicator corresponds to the sum of persons who are: at risk of poverty or severely materially deprived or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. At risk-of-poverty are persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers).

Source: OECD Social Policy database and Eurostat.

StatLink  <http://dx.doi.org/10.1787/888933336981>

subsidies), but will require more resources. A pilot scheme conducted in 13 municipalities was launched in November 2014. Households were eligible for the scheme if the taxable value of their main residence was below EUR 90 000 and their disposable income was below EUR 2 400 per year (increased by EUR 1 200 per year for each additional adult in the household and EUR 600 per year for each child). The benefit level was set equal to the difference between the income ceiling and the household's income. A recent World Bank study estimates that rolling out this scheme at a national scale would cost around 0.5% of GDP per year and could raise the income of the poorest and reduce extreme poverty (World Bank, 2015a). The GMI scheme will be phased in during the second half of 2016 and rolled out fully in 2017.

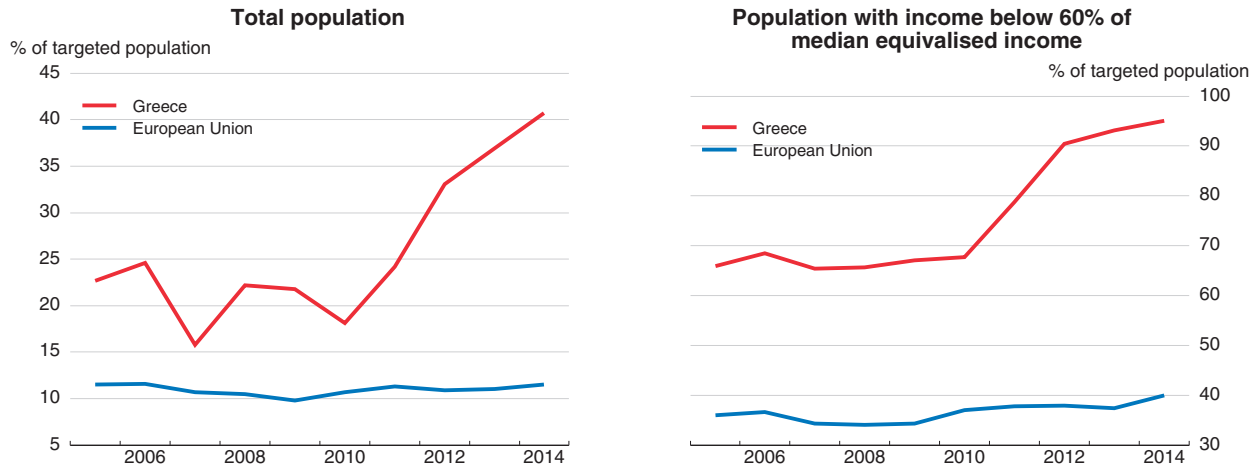
More actions are needed now to address child poverty. As recommended in the 2013 *Economic Survey*, a means-tested subsidised school meals programme would reduce food insecurity among children from poor households. Such programmes exist in, for example, France, the United States and the United Kingdom. A preliminary estimate puts the cost of such a programme at around 0.4% of GDP. However, the inexistence of school meal programmes in state-schools and potential under-reporting of income make means testing less effective. A more suitable alternative for the short-run would be to introduce school meal programmes in schools located in low-income regions.

In addition, the most vulnerable households face significant and mounting pressure from housing-related expenditures. The problem intensified due to the collapse in income, but even before the crisis housing affordability was already a problem for vulnerable households in Greece (Figure 17). Moreover, homelessness has increased significantly since 2009 (OECD, 2013). The previous main housing subsidy (OEK) was abolished in 2012 and there is no social housing programme. While a social housing programme would be the best solution in the medium run, introducing a well-targeted housing assistance programme is a priority for dealing with this problem in the short run. Assuming that such a programme would be similar in size as the previous OEK subsidy, this would amount to around 0.5% of GDP.

In the current tight fiscal situation, financing these programmes, which would represent around 1.5% of GDP, presents a challenge. Given the urgency to address the social crisis, the government should aim at alternatives, such as allocating part of the resources from savings generated elsewhere, e.g. pensions or defence, or improvement in tax collection. The completion of the social welfare review, which is currently being undertaken together with the World Bank, and the expenditure review foreseen for 2016 will be important instruments to identify sources for efficiency gains among social programmes and for resource reallocation within the public sector. At the same time, programmes will be more effective if they are implemented properly. For example, to make the GMI very progressive, more effort should be made to develop a means-testing tool that overcomes the potentially severe underreporting of income. Results from the pilot programme also show that local governments need more technical support from the national level to better target the guarantee (Jessoula et al, 2015).


Recent pension reforms and additional changes under discussion help sustainability

Recent pension reforms focused on improving the system's long-term sustainability. Reforms to the pension system in 2010 strengthened the long-term viability of the system by aligning benefits more with contributions, including by increasing and equalising retirement ages, and enhanced equity (OECD, 2013). A means-tested basic pension for the uninsured or

Figure 17. **Housing problems among the vulnerable population are widespread**Housing cost overburden rate¹

1. This indicator is defined as the percentage of the population living in a household where the total housing costs (net of housing allowances) represent more than 40% of the total disposable household income (net of housing allowances) presented by household type.

Source: Eurostat.

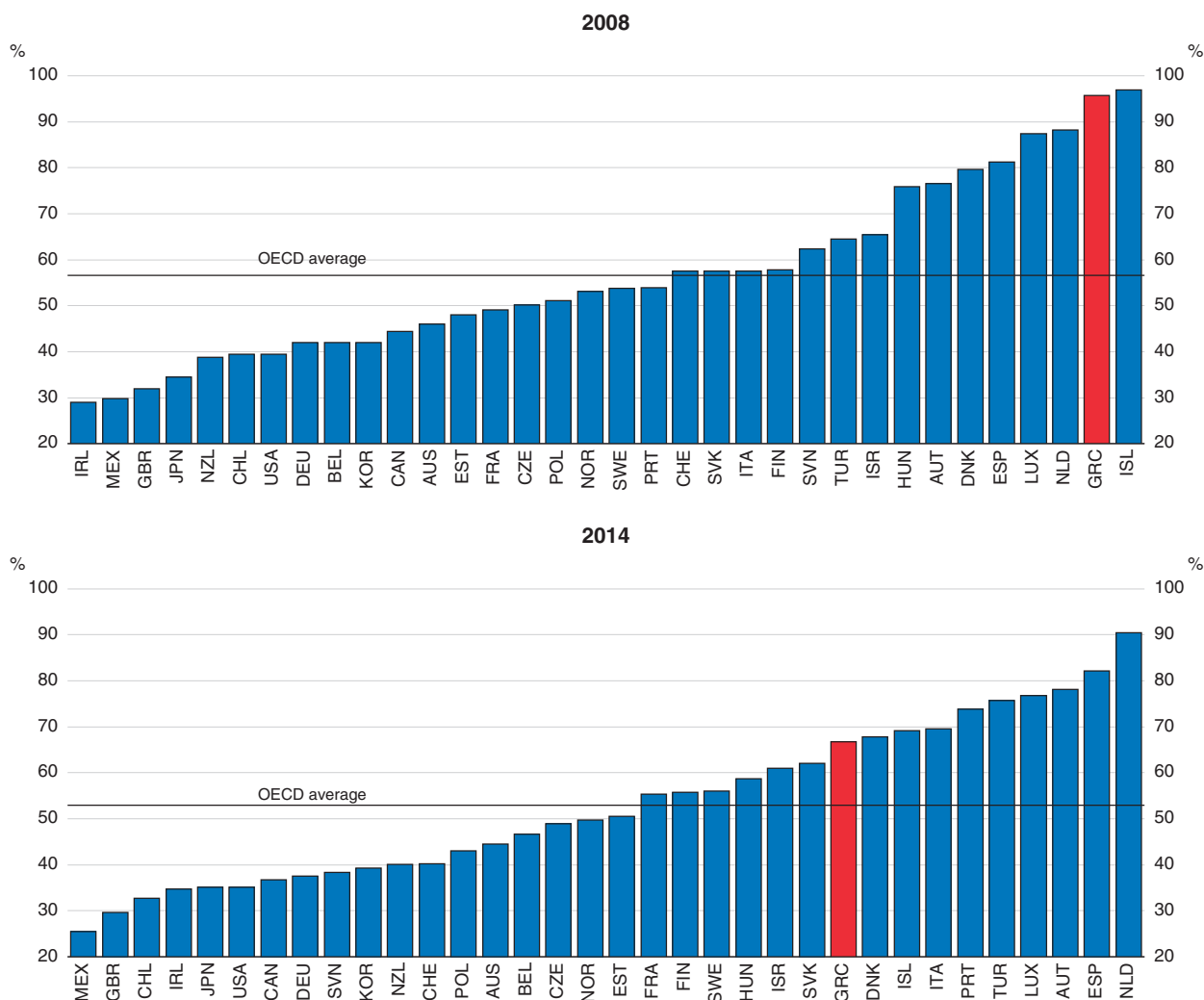
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those with insufficient years of contributions was also introduced. However, inequalities remain as some professional groups, such as liberal professions, kept their independent and more generous schemes. Furthermore, although the structure of the system was simplified, leaving six pension funds (in the past they were more than 100), several different sectoral systems, with different social security contributions and benefits, still operate within these funds. The reform also included a clause that curbs pension expenditure increases until 2060 to a maximum of 2.5% of GDP, triggering otherwise the need for parametric adjustments. In 2012, further adjustments were introduced including lower pensions, curbs in the number of hazardous occupations, an increase in the retirement age to 67 by 2021 and linking it to increases in life expectancy thereafter, as well as merging supplementary pension funds into one single fund.

These reforms reduced projected long-term pension expenditures from 16.2% in 2013 to 14.3% of GDP by 2060 (EC, 2015b). The reforms resulted in a 30% decline in gross replacement rates, which had been unsustainably high prior to the crisis. However, gross replacement rates still are above the OECD average (Figure 18).

However, there have been significant delays in implementing the reforms approved in 2010 and 2012. For example, issuing regulations to incorporate supplementary pensions under a unified fund (ETEA), adopting ministerial decisions to implement provisions such as penalties for early retirement or issuing secondary legislation for early retirement in the public sector have been delayed. OECD estimates show that full implementation of the above reforms and those contained in the 2015 MoU with the creditor institutions could increase GDP by more than 2% in the next decade via employment growth.


Implementation was speeded up in the second half of 2015, but challenges remain. For example, the government has adopted secondary legislation and ministerial decisions to curb early retirement by increasing penalties and implementing restrictions to early retirement in the public sector (EC, 2015c). However, the decision by the Council of State in June 2015, which

Figure 18. **Pension reforms have improved the system's long-term sustainability**Gross replacement rate, single person^{1, 2}

1. The gross replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings. It is a measure of how effectively a pension system provides income during retirement to replace earnings, the main source of income prior to retirement.

2. The replacement rate for Greece does not take into account supplementary pensions.

Source: OECD (2015), *Pensions at a Glance*.

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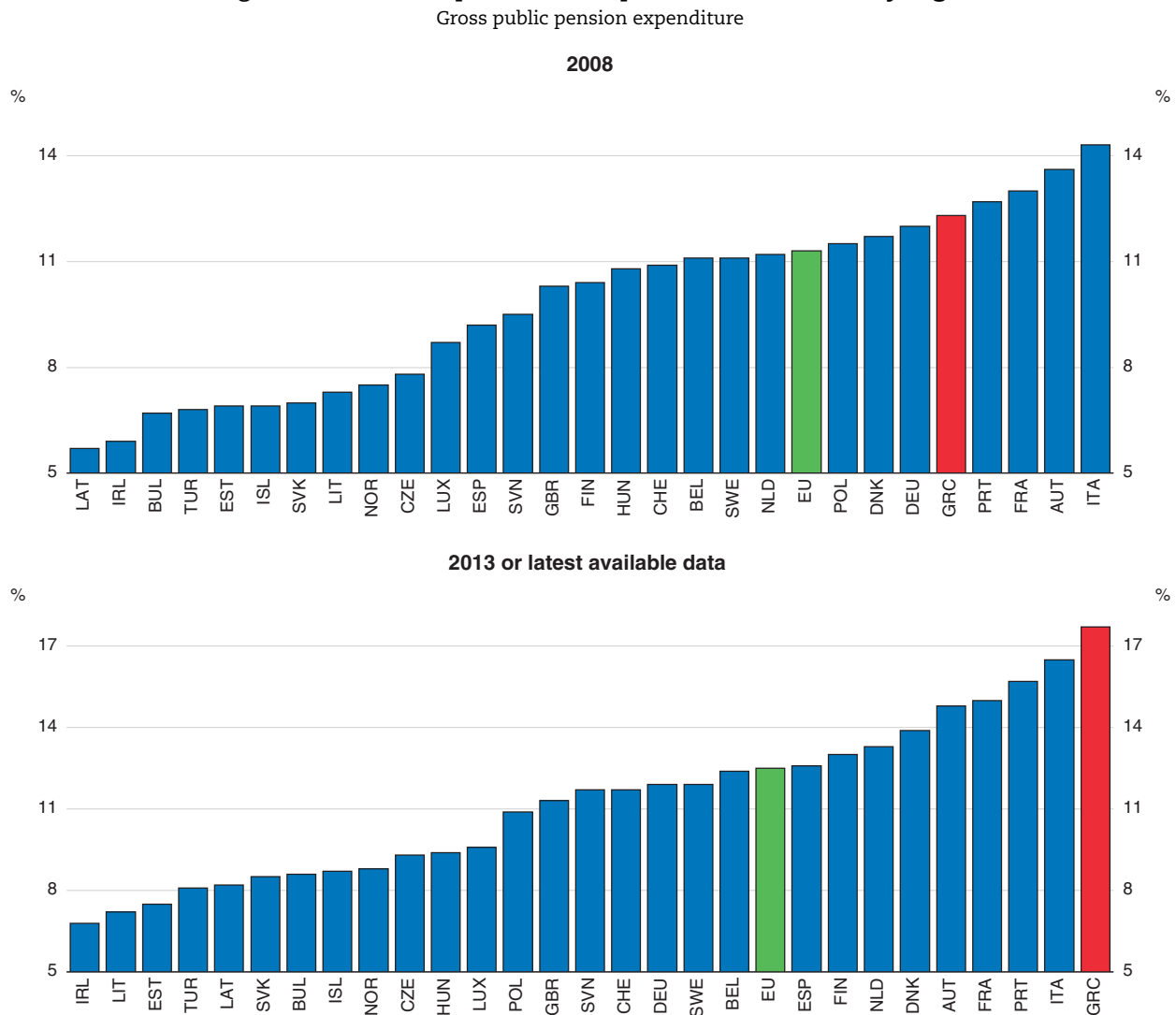
declared pension cuts undertaken in 2012 as unconstitutional, requires alternative legislation to neutralise its fiscal implications. Furthermore, a number of special regimes linked both to benefits and contributions still persist. For example, self-employed workers are allocated in 14 income levels regarding the income base on which the contributions are calculated, but they have the discretion of moving up to three income levels below the automatically assigned level. For some professions, such as self-employed engineers and lawyers, reduced contributions by 50% during the first five years of employment apply. Similarly, doctors and pharmacists enjoy reduced contributions by 40% for the first five years.

Another preferential regime related to benefits of workers in agriculture is the provision of a basic pension (EUR 360 or less) without necessarily contributing to the system. Moreover, employees of certain banks who entered employment before 1993 can also retire particularly


early: women at the age of 45 and with 20 years of contributions, and men at the age of 55 with 25 years of contributions. The existence of these different regimes points to a need for a rationalisation of exceptions to target those in need while, at the same time, safeguarding the viability of the social security system.

While the changes in the pension system if fully implemented will gradually reduce spending pressures over the next decades, today's expenditure on pensions remains high compared to other OECD countries. While old-age expenditure represented more than half of total social expenditure in Greece in 2012, the EU average amounted to less than 40%. The deep economic crisis has also contributed to push up public pension expenditures as percentage of GDP. Therefore, despite the reforms discussed above, public expenditure on pensions increased from 12.3% of GDP in 2008 to 17.7% of GDP in 2014 (Figure 19). These

Figure 19. **Public expenditure on pensions remains very high**



Source: Eurostat.

StatLink  <http://dx.doi.org/10.1787/888933337010>

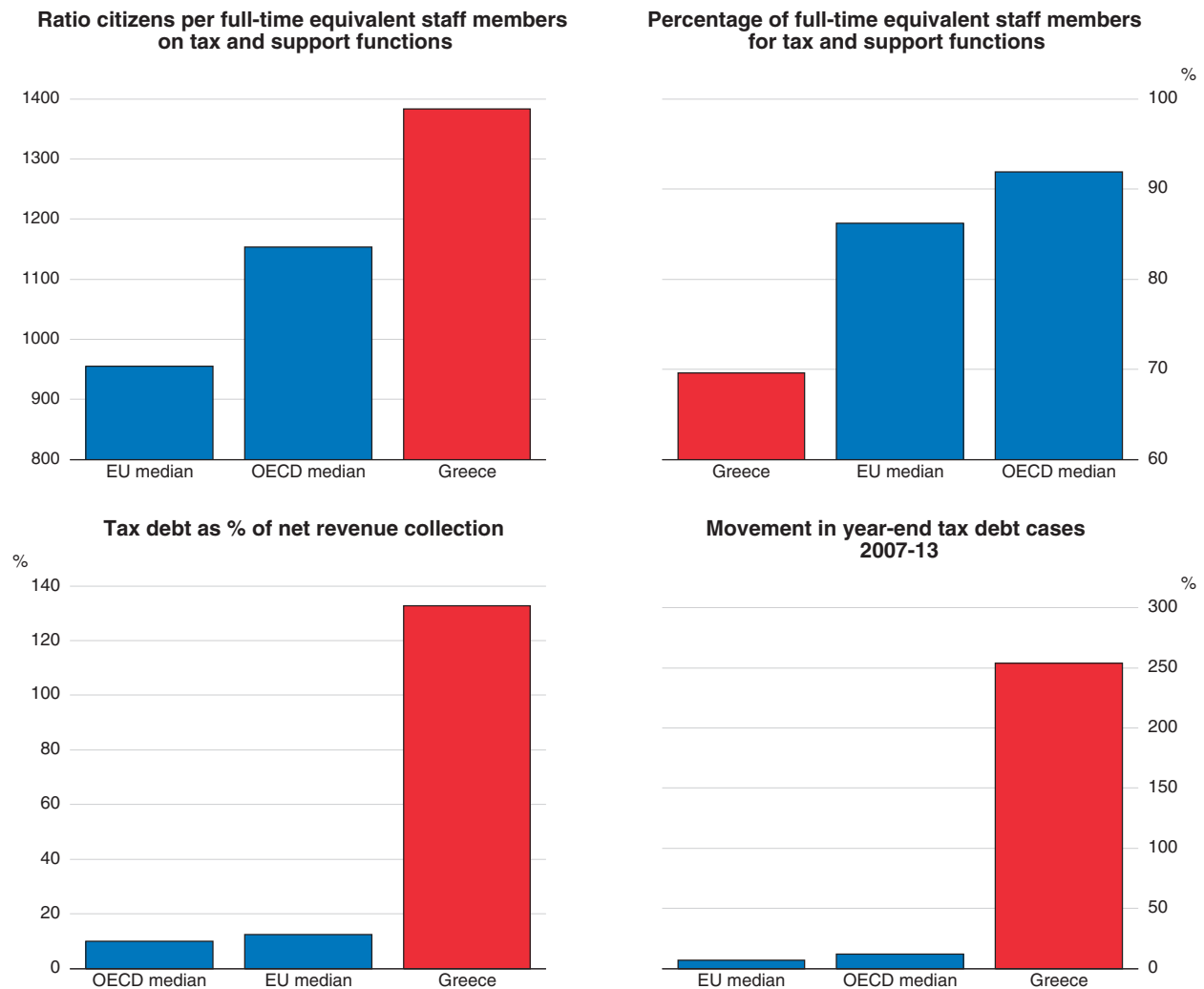
figures do not change significantly if private pension schemes, which are important in several OECD economies (e.g. Denmark, Netherlands, United Kingdom and United States) but marginal in Greece, are included in the analysis. The government presented a pension reform programme in January 2016. It would abolish all special pension regimes, restructure the supplementary pension and create a general common defined-benefit pillar, and a basic pension financed with general tax revenues. Although several of the details are still under negotiation with social partners and the creditor institutions, the targeted savings would be an additional 1% of GDP. Such a reform would also reduce the remaining horizontal and vertical inequalities in the pension system due to special regimes and potentially free some fiscal resources for other social expenditures, for example the minimum income guarantee, school meals or housing assistance.

Fighting tax evasion to increase fairness and raise revenue


Widespread tax evasion is a longstanding weakness that urgently needs to be addressed. Greece has one of the largest gaps between actual VAT collections and what should be collected according to the tax base and legislated VAT rates. This reflects a policy gap due to exemptions and reduced rates, as well as tax evasion. In 2015, the policy gap was effectively closed by eliminating lower rates for certain geographical areas and streamlining reduced VAT rates. Yet, the VAT gap that is due to tax evasion still remains. According to estimates by the European Commission, more than one third of the potential VAT collection is lost in Greece due to fraud, tax evasion and avoidance and related problems (EC, 2015a). Reducing this large gap would yield a significant increase in revenues. For example, a reduction by 50% in the VAT gap – the difference of revenues and potential revenues under complete compliance with current legislation – would leave Greece still above the EU average but represent approximately 1.8% of GDP. Although these changes might not be fully attainable in the short run, they illustrate the significant space for improving revenues based on fighting tax evasion.

Strengthening the tax administration further is a priority. Greece has long had difficulties collecting taxes and clearing tax arrears. Too much staff is dedicated to activities not directly related to auditing or collection (Figure 20). Since 2012, reforms have simplified the tax system, increased the autonomy of the tax administration, and introduced risk-based auditing (OECD, 2013). Across OECD countries, audit activity has evolved towards the use of effective compliance risk management methodologies. Such approaches help the tax administration focus on high compliance risks and how these risks should be treated to achieve the best possible outcome. Granting the tax administration more flexibility for human resource management, budget autonomy and transparency regarding business planning and performance goals would increase its effectiveness further. Introducing self-assessments of personal income tax returns and making more use of e-filing would allow resources to be concentrated on auditing taxpayers posing a high risk of evasion and avoidance, and on dealing with large arrears.

Tax arrears are very high and open cases are mounting, but the tax administration spends a significant amount of resources dealing with old cases (Figure 20). Establishing clear criteria for the evaluation of pending audit cases would guide the tax administration regarding decisions on which cases should be concluded or dropped and reduce the risk of bias or partiality of treatment. Simultaneously, tax amnesty practices should be avoided as their short-term fiscal yield is significantly outweighed by the medium-term damage to payment culture and the perception of fairness.

Figure 20. **Strengthening the tax administration would increase compliance**

Source: OECD (2015), *Tax Administration 2015: Comparative information on OECD and other advanced and emerging economies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/tax_admin-2015-en.

StatLink  <http://dx.doi.org/10.1787/888933337028>

Making the information technology and human resource investments and regulatory changes to benefit from the implementation of the OECD's global standards for automatic exchange of financial account information, together with the increased sanctions recently approved, would allow a voluntary disclosure programme to be implemented. This could raise revenues and broaden the tax base by increasing the assets and income previously hidden abroad, which are estimated to be significant in the case of Greece.

Stronger fiscal institutions would improve fiscal policy outcomes

Greece's past fiscal behaviour is not sustainable going forward, suggesting the need for institutional reform to improve decision making. For example, if Greece were to have a similar deficit bias and large fiscal shocks as in the past, it would require an extremely high GDP growth rate to make its current debt levels sustainable. Oppositely, if fiscal institutions would deliver a fiscal behaviour and macroeconomic shocks similar to the average

OECD country, then the growth rate needed to make debt sustainable would be attainable (Fournier and Fall, 2015). Fully operationalising the independent fiscal council (as approved in July 2015) would help in this regard. The board and chairman were appointed in November 2015. Independent fiscal institutions can help to reduce the deficit bias by providing independent assessments and forecasts (Hagemann, 2010), and tend to produce less biased official budget forecasts (Frankel and Schreger, 2013). It should have sufficient human and financial resources, remain accountable to the legislature but have financial and administrative independence and have access to all relevant information (OECD *Recommendation of the Council for Independent Fiscal Institutions*, OECD, 2014a).

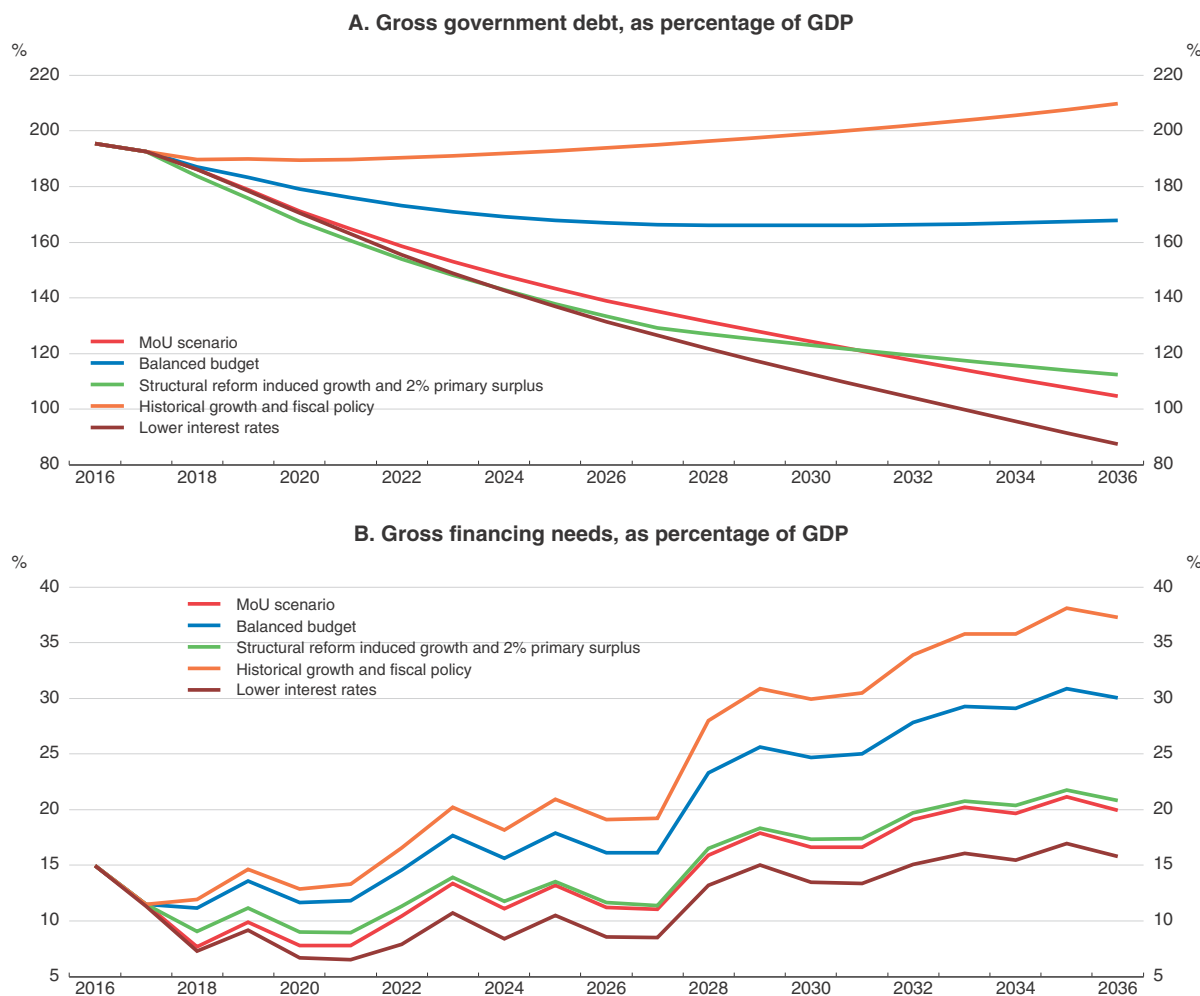
Dealing with high public debt

Greek public debt is among the highest in the world in relation to GDP. Even if the ambitious medium-term fiscal targets established in the 2015 MoU were met and growth was to recover, the debt-GDP ratio would remain elevated for decades. By 2030, debt-to-GDP would fall to 128% under the MoU scenario, slightly above the level projected (122% of GDP) by the EC and the ECB in their latest debt sustainability analysis for Greece (EC, 2015d). An alternative scenario, with a lower primary balance of 2% of GDP -which could be interpreted as financing the social policy reforms proposed above by lowering the primary balance instead of financing them through savings and tax base increases- and stronger growth based on assuming that reforms will add 1.3 percentage points to GDP growth during 2018-27, would yield a similar trajectory. However, such a path is far from assured, and depends, among other things, on economic growth and the primary fiscal balance actually being achieved (Figure 21).

While the fiscal targets are attainable, empirical evidence shows that sustaining large budget surpluses over a long period of time is a relatively rare event (Eichengreen and Panizza, 2014). A large and prolonged debt overhang or weak implementation of reforms may harm growth by creating uncertainty for investments and keeping interest rates at elevated levels. If downside risks materialise, debt might not fall to a point that would facilitate sustained market access when the programme expires in 2018. The results are similar to those presented in the latest IMF debt sustainability analysis (IMF, 2015a; 2015b) as well as the EC-ECB assessment. However, focusing on the debt-to-GDP ratio might overestimate the debt burden, given the favourable terms of the financial conditions of official loans. In this sense, a flow perspective that considers the debt structure is a relevant alternative way to assess the future public debt burden in the Greek case. However, the assessment of the evolution of debt-to-GDP ratio as well as gross financing need in the long term (e.g. at a 30 year horizon) strongly relies on several key assumptions, including path of interest rates, fiscal targets and GDP growth.

Debt service has already been greatly reduced by extended interest grace periods, below-market interest rates and long maturities. The current debt structure implies that gross financing needs – debt service plus the primary deficit minus privatisations – would remain below the IMF's threshold of 15% of GDP (a rule of thumb to assess fiscal sustainability from a gross-financing-needs perspective for emerging markets) in the next few years. However, gross financing needs will increase significantly by 2022 when the repayment of deferred interest kicks-in (Figure 21). Of course, the particular year-by-year gross financing needs depend critically on the assumption that by 2018 the government accesses markets by issuing every year a 10-year zero coupon bond, which explains the steep increase in 2028 when principal payment mature. Clearly, this evolution would probably be smoothed by issuing different bonds at different maturities, but the trend

Figure 21. **Debt will remain high and gross financing needs will increase significantly in the long run**



Note: The MoU scenario uses the primary targets agreed in the MoU (0.5% of GDP for 2016, 1.75% for 2017 and 3.5% onwards). The balanced budget scenario has the same values for 2016 and 2017, while in 2018 the primary balance is assumed to be 2.5% of GDP and from 2019 onwards a balanced primary budget. GDP growth for 2016 and 2017 is based on the updated projections from Table 1 and the EO98 and is assumed to accelerate afterwards and close ¾ of the output gap by 2026, averaging 2.5% in real terms between 2017 and 2026, while GDP deflator inflation is assumed to gradually move towards 2% by 2020. The structural reforms scenario adds 1.3% of real growth per annum between 2018 and 2027 based on the estimates presented in Table 2 below. The historical scenario assumes from 2019 onwards the primary balance is -0.6% of GDP and real GDP growth of 1.1% (the averages for 1988-2008). Interest rates for Panel A are based on the IMF's latest DSA and imply a gradual increase in the effective interest rate from 2.2% in 2016 to 4.5% by 2034. Gross financing needs are projected under the same assumptions, adding projections for interest rates related to EFSF, ESM and the Greek Loan Facility based on the latest long-term projections and EO98. The short-term interest rate for Greek debt is assumed to be 2% in 2016, 1.5% in 2017 and then converge to 2.25% by 2024. Greece is assumed to access markets again in 2019 with a 10-year zero-coupon bond at an interest rate of 5%. The lower interest rates scenario assumes that the EFSF/ESM rate will converge at a slower pace and to a lower rate (3.0% by 2034 and 3.5% by 2048), the rate for the Greek Loan Facility are adjusted accordingly, and the market debt for Greece is financed at 200 basis points above the long-term risk free rate. The projections assume that the ESM loans will amount to a total of EUR 66.4 billion, which differs from the initial envelope of 86 billion due to the reduced bank recapitalisation needs (EUR 5.4 billion instead of EUR 25 billion), and that all that future disbursements will be under the same financial conditions as those approved in August 2015. As the amount and terms of the IMF's participation is not yet determined, the simulations assume implicitly that the financing conditions will be the same as those of the ESM loan.

Source: Updated OECD Economic Outlook No. 98 Database, Memorandum of Understanding, OECD Calculations.

StatLink  <http://dx.doi.org/10.1787/888933337032>

would basically be the same. Furthermore, even under the optimistic scenario of the MoU programme, gross financing needs would continue to increase steadily over the following decades, raising serious concerns about the long-term sustainability of Greek public debt, as also noted by the IMF's and EC-ECB debt sustainability analyses. Markets may anticipate such a possibility, which could raise interest rates to unsustainable levels.

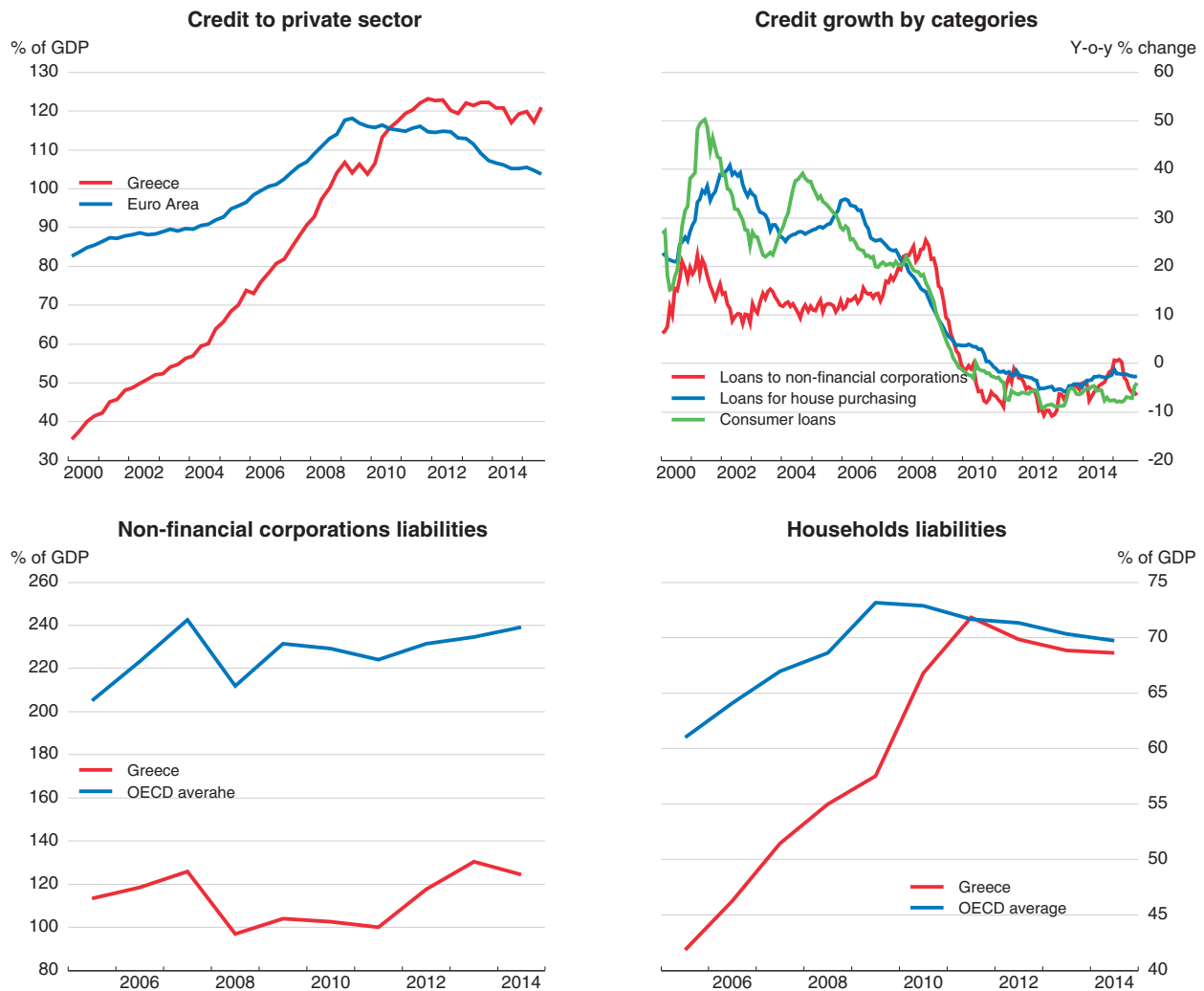
These results depend critically on the assumed path of interest rates, GDP growth, and other assumptions. For example, the assumption of regaining market access by 2018 at a 5% rate might be rather optimistic compared to today's bond yield or the rate of 6.25% assumed by the IMF. However, at the same time the ESM/EFSF rates, which are based on an update of long-term projection of the euro area average long-term rate (OECD, 2014b), imply that the spread of Greek bonds with respect to this interest rate would start at 350 basis points and fade only gradually by 2046. The euro area long-term rates are projected to gradually increase in the next decades, reaching 4.5% by 2028 – which might be high compared to current market expectations. Lower interest rates for EFSF/ESM than assumed in the OECD projections would lead to significantly lower gross financing needs. For example, if interest rates for the EFSF/ESM as well as GLF loans were to converge to a lower rate (3.5% by 2048) and a slower pace, gross financing needs would reach the 15% of GDP bound only by around the mid-2030s (Figure 21). However, the interest rate projection is consistent with inflation gradually reaching the ECB's target and that a slight boost to potential GDP growth due to some structural reforms happening in the euro area (OECD, 2014b).

Some of the problems associated with the high public debt could be addressed by extending the average length of maturities and lowering interest-rates and rollover risks. The empirical evidence suggests that debt write-offs often outperform net-present-value restructurings in terms of subsequent growth and credit ratings (Reinhart and Trebesch, 2016). This result seems to reflect the fact that net-present-value restructurings often did not reduce the debt burden over a sufficiently long period of time to allow for a sustained decline in the debt-to-GDP ratio. However, as pointed out above, the debt/GDP ratio is a less relevant indicator, given that the very long maturities and low interest rates imply a lower net present value already. Debt measures consisting in further cash flow restructuring are not necessarily less efficient than debt write-offs although they do not entirely eliminate risks that could emerge if growth is lower and interest rates are higher relative to expectations. Significantly extending maturities and grace periods on principal and interest could assure low and stable gross financing needs over the long-term and therefore reduce uncertainty. Furthermore, interest rate payments are currently low, but all official loans are at floating rates. Hedging this risk by, for example, fixing the rates at current levels would reduce uncertainty, and could provide some breathing room for the economy to recover and for structural reforms to boost output. For example, converting the outstanding debt with European partners and institutions (Greek Loan Facility, EFSF and ESM) to a fixed-interest facility from 2016 onwards would considerably reduce gross financing needs.

Getting credit growth started again

The long-lasting recession has weakened banks' assets, eroded capital and limited credit to support the recovery. From 2001-08, easy and cheap credit led to high growth in loans to the private sector (Figure 22), loans which proved hard to pay back in the subsequent deep recession. This resulted in households' indebtedness of around 70% of GDP close to the OECD average while non-financial corporations managed to keep their liabilities at relatively low levels. In recent years, the private sector has started to deleverage. However, given the large decline in GDP, liabilities as a share of GDP dropped only marginally (Figure 22).

The banks were also exposed to government bonds which led to heavy losses once the private sector was forced to participate in the public debt restructuring in 2012. Banks' net interest income has decreased sharply in recent years as a result of increasing NPLs, rising funding costs in a context of deposit outflows, closure of the interbank market and the

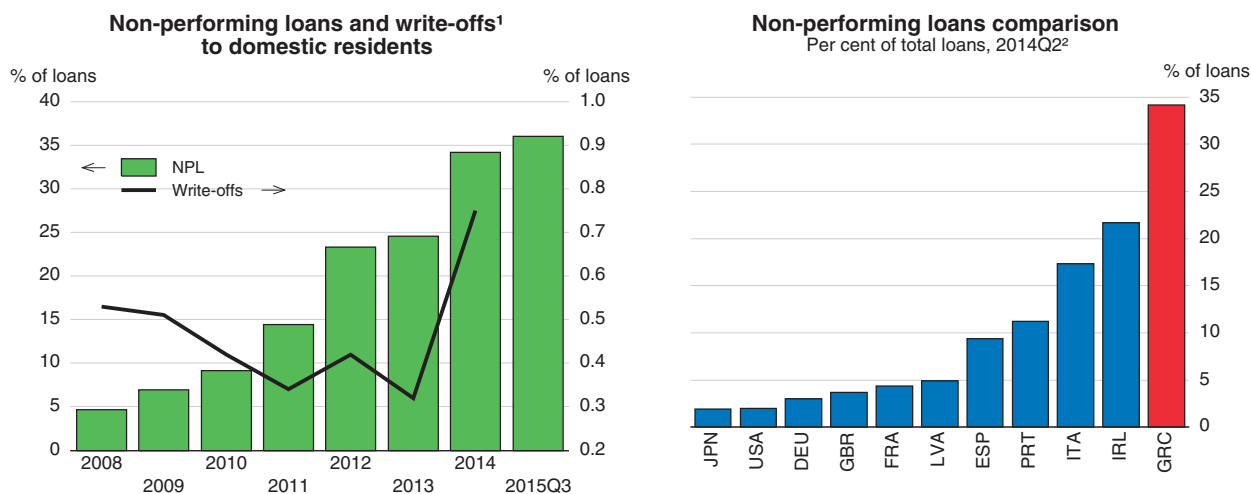
Figure 22. **Loans to the private sector grew sharply before the crisis**

Source: ECB; Greece Central Bank; and OECD National Accounts database.

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subsequent dependence on costly Emergency Liquidity Assistance (ELA) to bridge the funding gap. Banks were recapitalised and consolidated in 2014, and were recapitalised again in December 2015, following an ECB assessment in October 2015, with the public sector contributing just EUR 5.4 billion in fresh capital compared to the initially estimated EUR 25 billion.

NPLs have increased from 16% at the end of 2011 to 36% of total loans in the third quarter of 2015 (Figure 23), and are expected to increase further in 2016. NPLs account for almost half of all consumer loans, one third of commercial loans and close to 30% of mortgages (Figure 24). The four main banks in Greece have established their own units for NPLs resolution, but this approach has not arrested the build-up. Resolving NPLs has been complicated by regulations protecting small debtors, lack of markets for distressed debt and the past bankruptcy law that favoured the state as creditor versus the banks in the process of asset recovery.

Figure 23. **Non-performing loans increased significantly during the crisis**

1. Write-offs expressed as annual flows; non-performing loans include restructured loans.

2. Or latest available data.

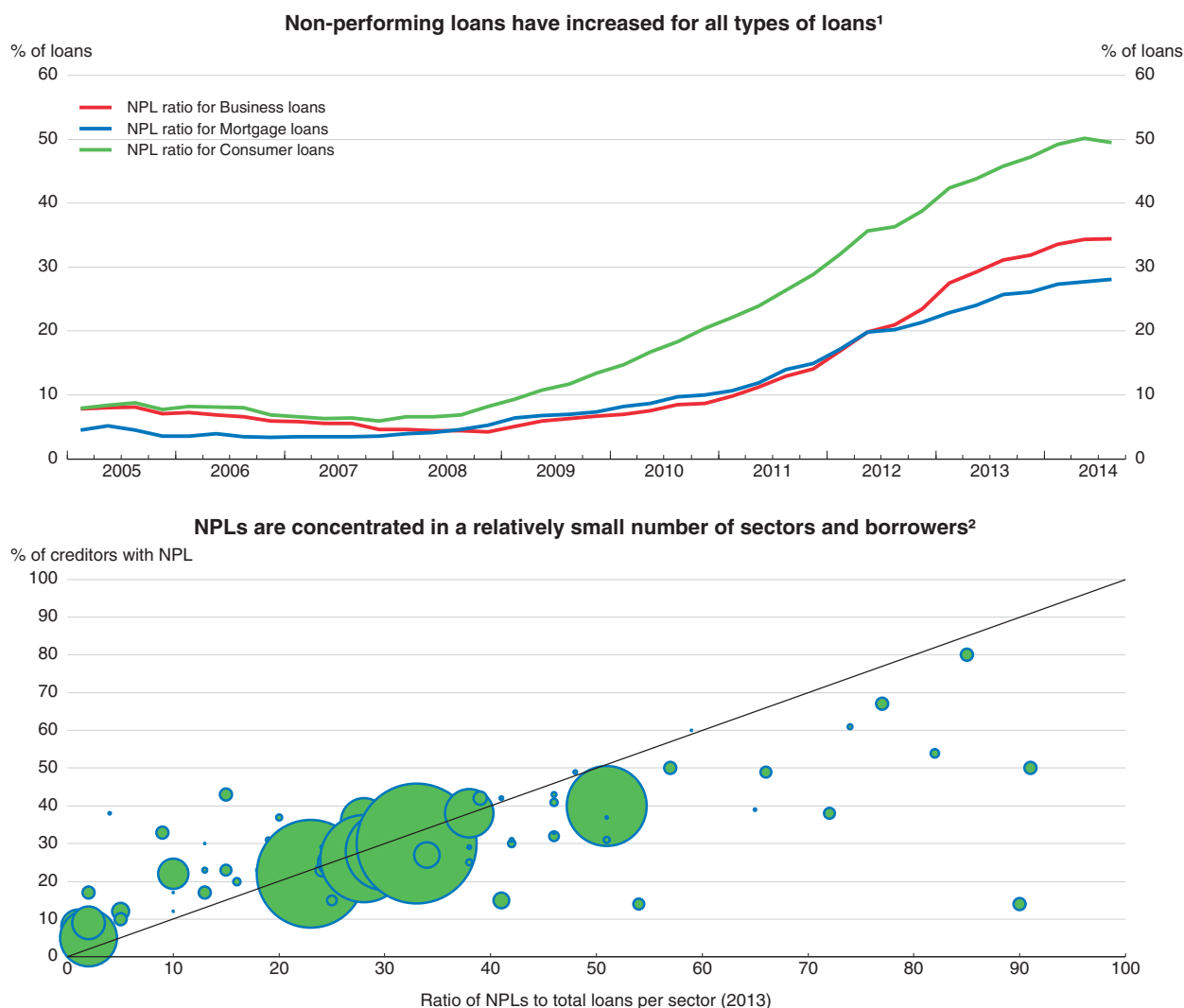
Source: Bank of Greece and IMF Financial Soundness Indicators database.

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The Greek parliament passed a law in December 2015 that will lead to the creation of an NPL secondary market in line with the 2015 MoU agreement. Until February 2016, only large corporate loans and mortgages on non-primary residences will be available for sale, the rest being discussed in the context of the first programme review in early 2016. This is a step in the right direction, especially regarding business loans, as it will allow solving NPLs from common borrowers – which involve more than one bank and represent around one-third of NPLs – and make their management easier. Corporate NPLs are concentrated in a relatively small number of borrowers and in few industries (Figure 24). However, industries where concentration is very high, such as fishing and agriculture, manufacture of textiles, chemicals and basic pharmaceutical products represent a small share of total loans, which limits the risks associated with NPLs resolution. In the non-tradable sector, construction and, to a lesser extent, wholesale trade and finance and insurance activities are relatively highly concentrated with NPLs representing half and a third of total loans respectively.

According to the Bank of Greece, strong concentration can make NPL management easier, provided that credit institutions have an appropriate institutional and bankruptcy framework to draw on. The NPLs ratio has increased in almost all industries according to the latest available figures with the increase being more important for those with already higher NPL ratios. Accordingly, priority should be given to addressing the problem in those industries where the ratio is high, so as to reduce the risk of contagion to healthy companies (Bank of Greece, 2015). Moreover, the activation of the Code of Conduct for the management of NPLs is expected to have a positive impact towards the resolution of problematic loans.


A better legal framework that facilitates NPL workouts would contain the final costs of restructuring. Bankruptcy procedures in Greece are very time consuming and assets are usually sold piecemeal, leading to low recovery rates (Figure 25). The insolvency framework has also discouraged households debt workouts. The undertaken reforms tightened the eligibility criteria for accessing the insolvency framework, and introduced a "facilitation

Figure 24. **Non-performing loans have increased and are fairly concentrated**

1. Data for all Greek commercial banks, Non-performing Loans defined as loans more than 90 days past due.

2. The bubbles represent the share of loans of each industry in total loans.

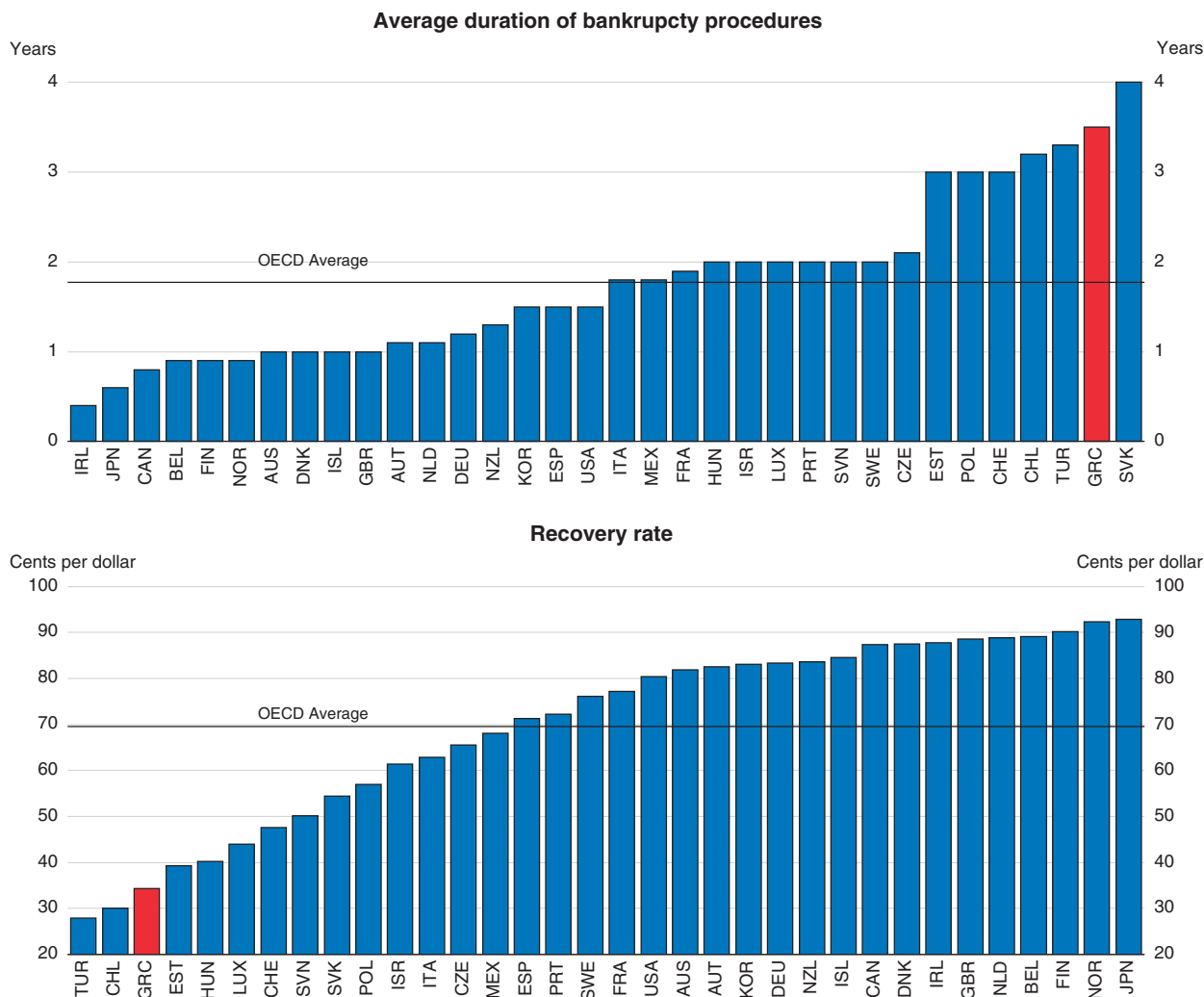
Source: Bank of Greece.

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programme” to provide households under financial stress with debt relief proportionate to their current income for a period of up to four years (OECD, 2013). It also provided natural persons (with no resources to engage in insolvency procedures) the right to apply to County Courts and thus resolving their debts (Bank of Greece, 2015).

Recent legislative amendments, that should be implemented swiftly, aim to address the aforementioned issues by making the NPL resolution process faster and more effective. Further improvements of insolvency legislation are expected to bring corporate insolvency law in line with international best practice, for example by allowing banks to be among first creditors to benefit from asset recovery, or enhancing the prospects of companies in achieving rehabilitation at an early stage. Regarding households, the last amendments to the household insolvency law (August and November 2015) a) establish a stricter screening process to deter strategic defaulters from filing under the law, b) include public creditor

Figure 25. **Bankruptcy procedures in Greece are time consuming and recovery rates are low**
2014



Source: World Bank database.

StatLink  <http://dx.doi.org/10.1787/888933337072>

claims in the scope of the law providing eligible debtors with a fresh start, and c) at the same time provide social safety mechanisms to the most vulnerable borrowers by protecting their primary residence through a state subsidy of their loan instalment for three years.

In order to enhance out-of-court resolution and speed-up insolvency procedures, the authorities adopted legislation to establish a regulated profession of insolvency administrators, not restricted to any specific profession and in line with good cross-country experience. Moreover, the authorities are addressing the large backlog of cases by establishing specialised chambers both for household and corporate insolvency cases and appointing and training an adequate number of additional judges (based on targeted caseload) and judicial staff for both corporate and household insolvency cases. At the same time, the Bank of Greece is setting-up operational targets for individual banks regarding NPL resolution. These targets will be monitored on a quarterly basis.

Stronger structural reforms bring higher growth and jobs

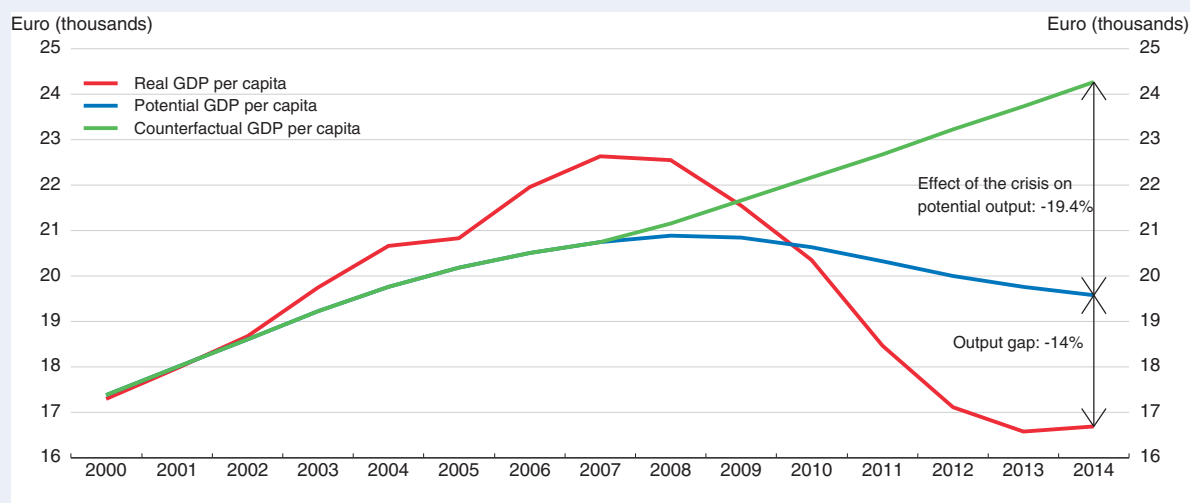
The macroeconomic and financial policies discussed above would support a cyclical recovery of the Greek economy, but would be insufficient to reach pre-crisis living standards soon. Stronger growth would make the debt burden more sustainable. Structural reforms to boost total factor productivity, reducing structural unemployment and increasing labour participation would raise potential output (Box 2).

Box 2. The effects of the crisis on potential output


The impact of the 2009 global crisis has been different across OECD countries. Ollivaud and Turner (2015) compared current estimated potential with a counter-factual scenario in which trend productivity continues at its pre-crisis (2000-07) trend growth rate, structural unemployment rates remain at their pre-crisis (2007) levels and trend participation rates follow evolving demographics. The analysis suggests that there are important effects other than just the crisis, including policies, which have contributed to the loss of potential output. In addition, pre-crisis conditions relating to financial excesses, – in the case of Greece, the large current account deficit and high total indebtedness – are also related to losses in potential output. The study also shows that more competition-friendly product market regulation is associated with smaller losses of potential output, as these reforms facilitate a reallocation of resources across firms and sectors in the aftermath of an adverse shock and so helps to mitigate its consequences. It should be noted that this exercise is subject to significant uncertainty as potential output is not observed and the assumption that pre-crisis trend productivity growth was sustainable might lead to an overestimation of the counterfactual potential output in the absence of the crisis.

In Greece, the financial crisis is estimated to have led to a loss of potential output per capita of 19% as of 2014, one of the highest levels in OECD countries (Figure 26). This gap is explained by the fall in TFP (8.5 percentage points), higher structural unemployment (6.2 percentage points), lower labour force participation (3.8 percentage points) and a decline in the capital-labour ratio (0.9 percentage points). In the short run, boosting investment will help to close the output gap, but further structural reforms are needed to bring GDP back to its pre-crisis level.

Figure 26. The impact of the crisis on potential output has been sizable



Source: OECD calculations based on EO98 database and Ollivaud and Turner (2015).

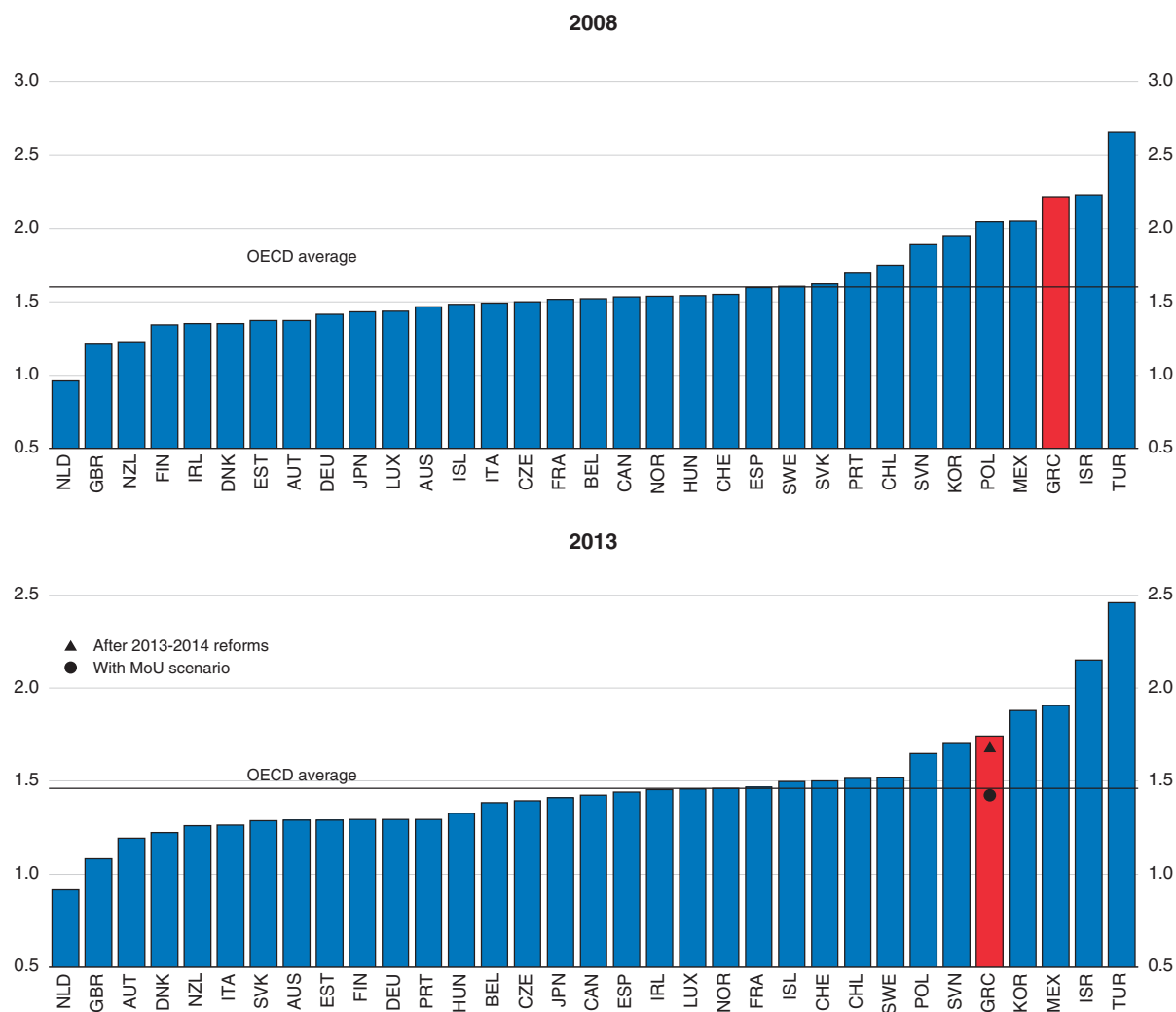
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Reforms so far have not boosted growth as expected

Reforms have delivered less growth than expected, or when compared to other European countries that underwent significant adjustment and reforms in recent years. Many structural reforms are less effective or might even have a short-term recessionary impact when implemented in an extremely weak aggregate demand context (Caldera Sánchez, de Serres and Yashiro, 2015). The adjustment programmes initially focused excessively on fiscal adjustment, while the reform agenda to boost growth was introduced rather late in the process. Furthermore, much of the adjustment was borne by labour, while product market reforms advanced only slowly (Figure 27), leaving monopoly power and other impediments in place in many sectors. This sequencing resulted in large demand costs up front, making structural reform more difficult and less effective. Weak implementation (Figure 28) has also undermined the effectiveness of reforms (IMF, 2014).

Figure 27. **There is room to further ease product market regulations**

Index scale from 0 – 6 (least to most restrictive)



Source: OECD (2015), Product Market Regulation database.


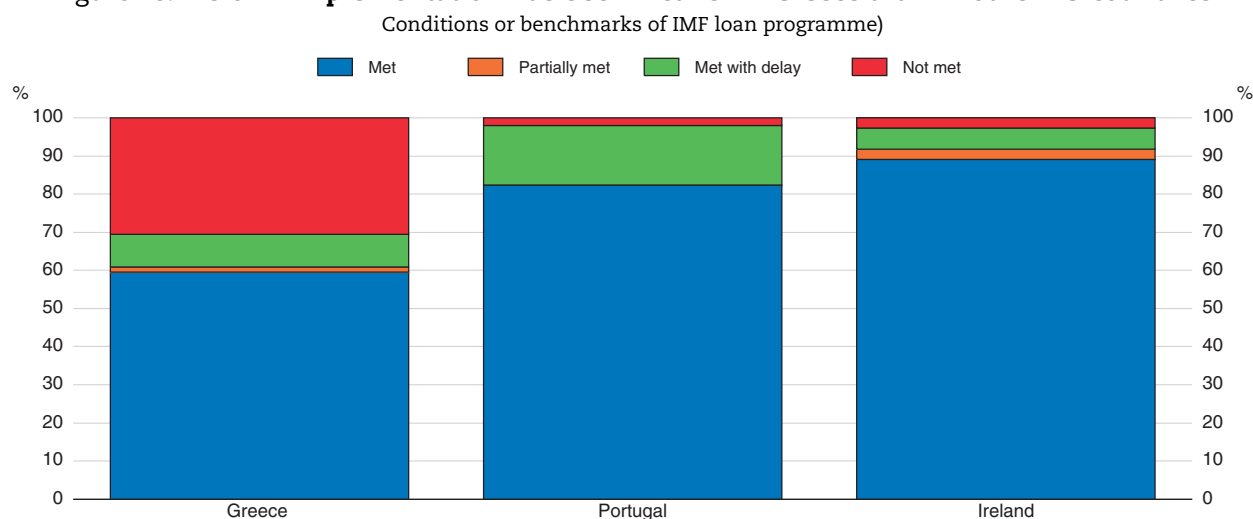
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Figure 28. **Reform implementation has been weaker in Greece than in other EU countries**

Note: The graph shows the fraction of prior actions and structural benchmarks for the IMF loans of the respective programs for all reviews corresponding to each category. Targets that were modified or waived are excluded from the analysis. For Greece, the SBA refers to the Stand-by Agreement of 2010 and EFF is the Extended Loan Facility of 2012.

Source: OECD calculations based on IMF MONA database.

StatLink <http://dx.doi.org/10.1787/888933337103>

More product market reforms would boost growth substantially

OECD estimates show that over the next decade, the reforms introduced since 2010 combined with some of the reforms planned within the 2015 MoU would boost output significantly, thereby largely offsetting the loss in potential output due to the crisis. The estimates in Table 2 represent a lower bound in the sense that other reforms—improving the judiciary, strengthening bankruptcy regulations, wage bargaining decentralisation, and modernising the public administration—are not quantified. However, it should be noted that they are subject to uncertainty, therefore the point estimates should be treated with caution. The methodology also assumes that legislated reforms are implemented at the OECD's average quality and do not take into account short-term interactions with aggregate demand or the reform mix.

Many of these reforms would also help the competitiveness of exports either directly by lowering costs of doing business or by lowering costs of key inputs to goods and services such as energy or transport. Recent product market reforms have paid little attention to reducing the many barriers to exports in Greece. Evidence shows that within EU countries, where barriers to trade have been reduced drastically within the Single Market, stringent regulation in product markets has a negative impact on exports (Fournier, 2015). In Greece, the lack of adjustment in product markets impedes export activity by increasing production costs (Arkolakis et al, 2015).

Better implementation and more ownership are key to reaping these growth benefits

Product market reforms have reduced barriers to entrepreneurship by creating one-stop shops to open a business, reducing the burden on filing taxes, opening up closed professions, and removing regulations that hindered market entry and competition in several sectors. Some horizontal issues such as truck licensing and advertising fees, were also analysed (OECD, 2014c). However, implementation in many cases lacked key

Table 2. **Estimated impact of major reforms on real GDP over a 10-year horizon¹**

Reform	GDP	Via Employment growth	Via Productivity growth
<i>Reforms implemented 2010-14</i>			
Product Market Reforms	3.4		3.4
Product market reform between 2010-13	2.9		2.9
Product market reform in 2013-14	0.5		0.5
Labour Market Reforms²	0.9	0.6	0.3
Employment Protection Legislation reform in 2010-13	0.3		0.3
Pension reform	0.6	0.6	
Tax Structure reform	1.3		1.3
Total implemented reforms	5.6	0.6	5.0
<i>Reforms currently being implemented or planned in the MoU</i>			
Product Market reforms	4.4		4.4
Network industries reform (electricity, gas, rail road and transport)	2.3		2.3
Other product market reforms ³	2.1		2.1
Labour Market reforms	2.4		
Pension reform	2.2	2.2	
Employment protection legislation	0.2		0.2
Tax Structure reform	0.8		0.8
Bankruptcy reform	0.2		0.2
Total planned reforms	7.8	2.2	5.6
Total implemented and planned reforms	13.4	2.8	10.6

1. See Annex of Chapter 1 for the methodology used to estimate the impact of reforms.

2. Reforms to the wage bargaining system are not assessed in this exercise.

3. Includes reforms to reduce administrative burden, opening closed professions, trade facilitation and investment licensing.

Source: OECD calculations.

secondary legislation and regulations. For example, while licencing for trucks was eased, stringent conditions regarding financial guarantees were not lifted until recently, reducing the overall impact of the reform. Other reforms, e.g. advertising fees and Sunday trading – which would have created around 30 000 new jobs (OECD, 2013) – were not fully implemented.

Implementing a substantial amount of reforms over a short time period, in a context of depressed aggregate demand and with a relatively weak public administration, is a challenging task. For example, pension reforms are in general difficult to implement and often require long phase-in periods to reduce resistance by those directly affected by the reform (OECD, 2010c). In the case of Greece, the large short-term fiscal adjustment needs implied that in addition to parametric reforms that reduced the future fiscal burden reductions in current pension expenditure were also required. This represented significant political costs for the governments that tried to implement these reforms. Therefore, despite efforts in distributing the consolidation measures in a progressive way, implementation has been slow and difficult due to political economy reasons.

Another area where progress has been slow is the business climate. Greece has undertaken important reforms in creating a one-stop shop to deal with licenses to open and register a new business, including a common electronic platform that interconnects several government agencies, a reduction in registration fees and abolishing minimum

capital requirements for limited liability firms. This led to a significant reduction in the cost of opening a firm in Greece. However, other aspects needed to start operations, such as registration of property, dealing with construction permits, getting electricity, and health inspections remain cumbersome. Therefore, despite progress in easing the burden of entry, the regulatory burden for operating a business in Greece continues to be heavy. A more co-ordinated approach to reform would help detecting complementarities across areas of reform.

The new reform programme of the 2015 MoU is more balanced, the economic situation is turning, external conditions – such as euro area growth and oil prices – are more supportive and the pace of fiscal consolidation is easing. Stronger ownership of the reform process and a transparent and clear communication strategy of the expected benefits of reforms to the general public, especially those who would most benefit from them, would help in building support for the reform programme. Particularly in the Greek case, many of the past reforms have been framed as externally imposed, with an emphasis on the short-term costs rather than the medium-term rationale of modernising the Greek economy or the costs of inaction (OECD, 2010c). For example, in the case of removing barriers to competition in a particular sector, communication should shift from emphasising the cost for incumbent firms towards the benefits for the consumer and job creation. Regarding administrative capacity, continuous and sustained efforts to build capacity in the public sector is needed. However, this takes considerable time. Therefore, a way to improve the quality of reform implementation in the short term is to better use existing technical cooperation and EU structural funds. In this regard, the OECD will work together with the Greek government on a series of reforms in identifying and helping in their implementation (Box 3).

Acceptance of reforms may also be facilitated by tackling more sectors with concentrated economic power. Several of the priority sectors for reducing barriers to competition are oligopolistic. The MoU also includes several actions related to alleviating the social crisis and building institutions for more inclusive growth mitigating the impact on reforms on affected groups, which should also make the reform package more acceptable. A positive development is that the government has now a clear mandate to implement the reform agenda, which generally is a precondition for successful implementation (OECD, 2010b). A clear communication strategy of the expected benefits of reforms would help to build support. The experience of other OECD countries shows that successful reforms are generally based on a good diagnostic and quantification of these benefits (OECD, 2010b).

Network sector reforms to raise competitiveness

Streamlining regulation in network sectors (energy, transport, telecoms) has been important in Greece since 2000, but in several sectors restrictions are still above the OECD average (Figure 29). Some competition has been introduced in electricity. In December 2015, the Authorities agreed with the institutions on a plan that will separate the electricity transmission system operator (ADMIE), from the Public Power Corporation (PPC), the incumbent. At the end of the process the Hellenic Republic will hold 51% of ADMIE, with a strategic investor (another TSO) holding 20%, and 29% on the stock market. This will create more separation of the system transmission operator from the main supplier. However, there is still significant market concentration in the wholesale and retail market on behalf of PPC and cross-subsidisation among different categories of

Box 3. OECD work with Greece regarding structural reforms

Since the first adjustment programme, the OECD has been collaborating closely with the Greek governments in the design and implementation of the reforms needed to ensure inclusive growth. In particular, a project on administrative burden and two projects on competition assessment have been carried out. In the future, the collaboration will concentrate on further product and labour market reforms and public procurement.

In December 2012, the OECD has engaged with the Greek Ministry of Administrative Reform and e-Government in a project to measure and identify options for reducing administrative burden in 13 sectors of the Greek economy. The outcomes of this project were 87 concrete recommendations for reducing administrative burdens in Greece.

In November 2012, a Competition Assessment was agreed between the Greek government and the OECD to identify regulatory barriers to competition in four key sectors of the Greek economy: food processing, retail trade, building materials and tourism. The OECD Competition Assessment Project identified 555 problematic regulations and 329 provisions where changes could be made to foster competition. In September 2014, a second assessment to identify rules and regulations that may hinder the efficient functioning of markets in four manufacturing sub-sectors in Greece was agreed. The sectors covered were: beverages; textiles, clothing apparel and leather; machinery and equipment; and coke and refined petroleum products. The report gave 88 recommendations on specific legal provisions taking into account EU legislation and relevant provisions in comparable countries, notably EU Member States.

In March 2015, the Greek Government and the OECD signed a Joint Document of Co-operation to strengthen their collaboration on a range of issues. They include: boosting job creation, reducing the administrative burden to business, public finance and spending, instilling a culture of transparency and integrity, strengthening the tax system and disrupting oligopolies and cartels through greater competition and product market reform. This agreement also created a joint task force that has supported Greece in concrete measures of its reform agenda.

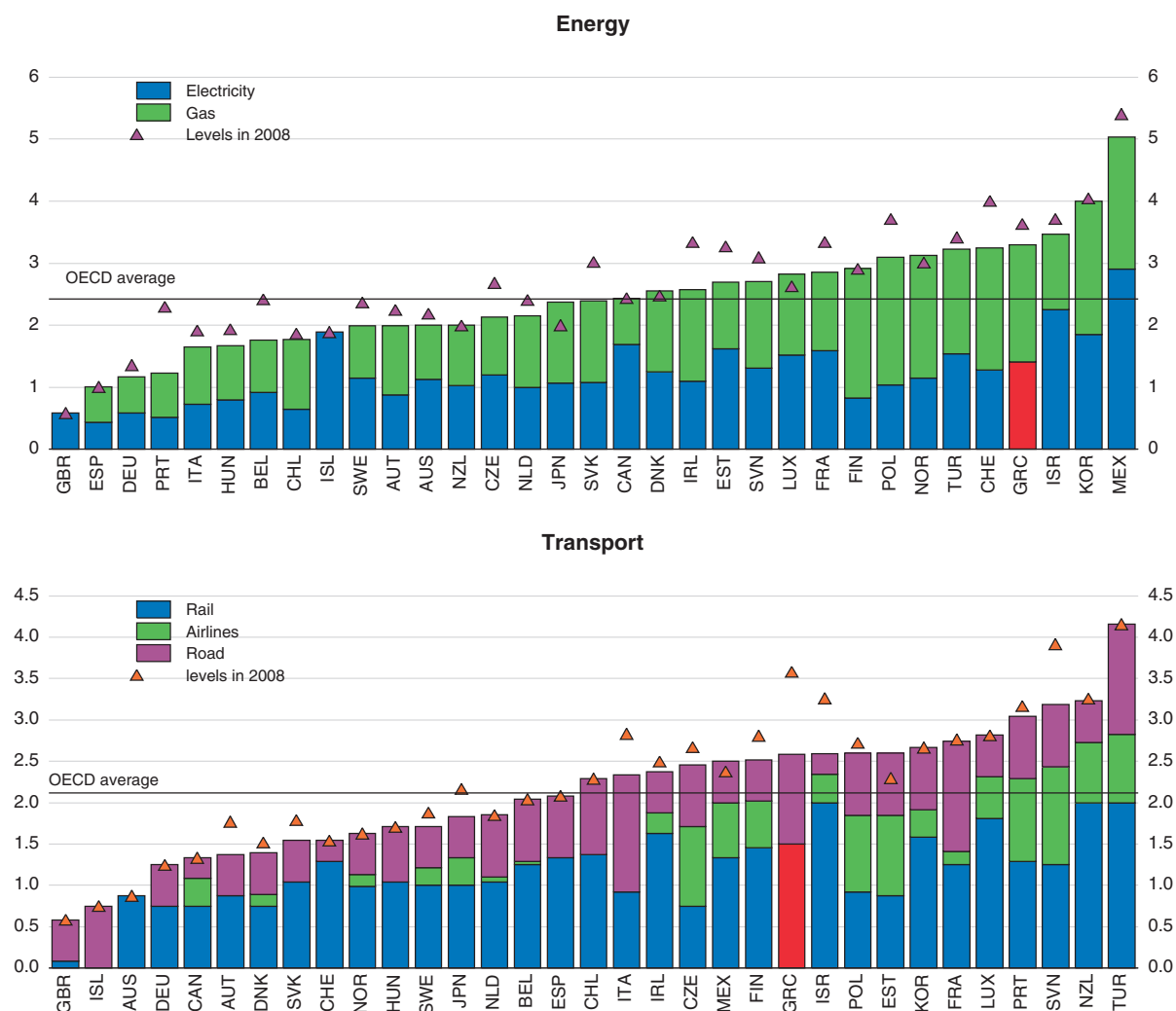
The 2015 MOU, reflects some of the areas where the OECD will collaborate with the Greek Government. The areas included are: labour market reform and vocational education and training; education, public procurement, and the launch a new competition assessment, targeting wholesale trade, construction, e-commerce, media and manufacturing sectors excluding those analysed in the earlier competition assessment projects.

customers reduces competition and raises prices (Figure 30). High energy prices may contribute to the limited success of internal devaluation in boosting exports (Pelagidis, 2014). Strengthening the operational and financial independence of the electricity regulator is essential. In the gas market, recent reforms – currently being implemented- have increased the right of consumers to choose suppliers.

Greater use of renewables in energy production would also raise competition. Electricity generation is becoming less carbon intensive. The share of renewable energy sources used in electricity generation steadily increased from 5% in 1990 to 23% in 2013. The National Renewable Energy Action Plan (NREAP), elaborated in 2010 in line with the EU Renewable Energy Directive, outlines the policies and measures to achieve Greece's 2020 targets for renewable energy. It sets out targets of 18 % to 20 % of gross

Figure 29. **Regulation in the energy and transport sectors**

Index scale from 0 – 6 (least to most restrictive), 2013



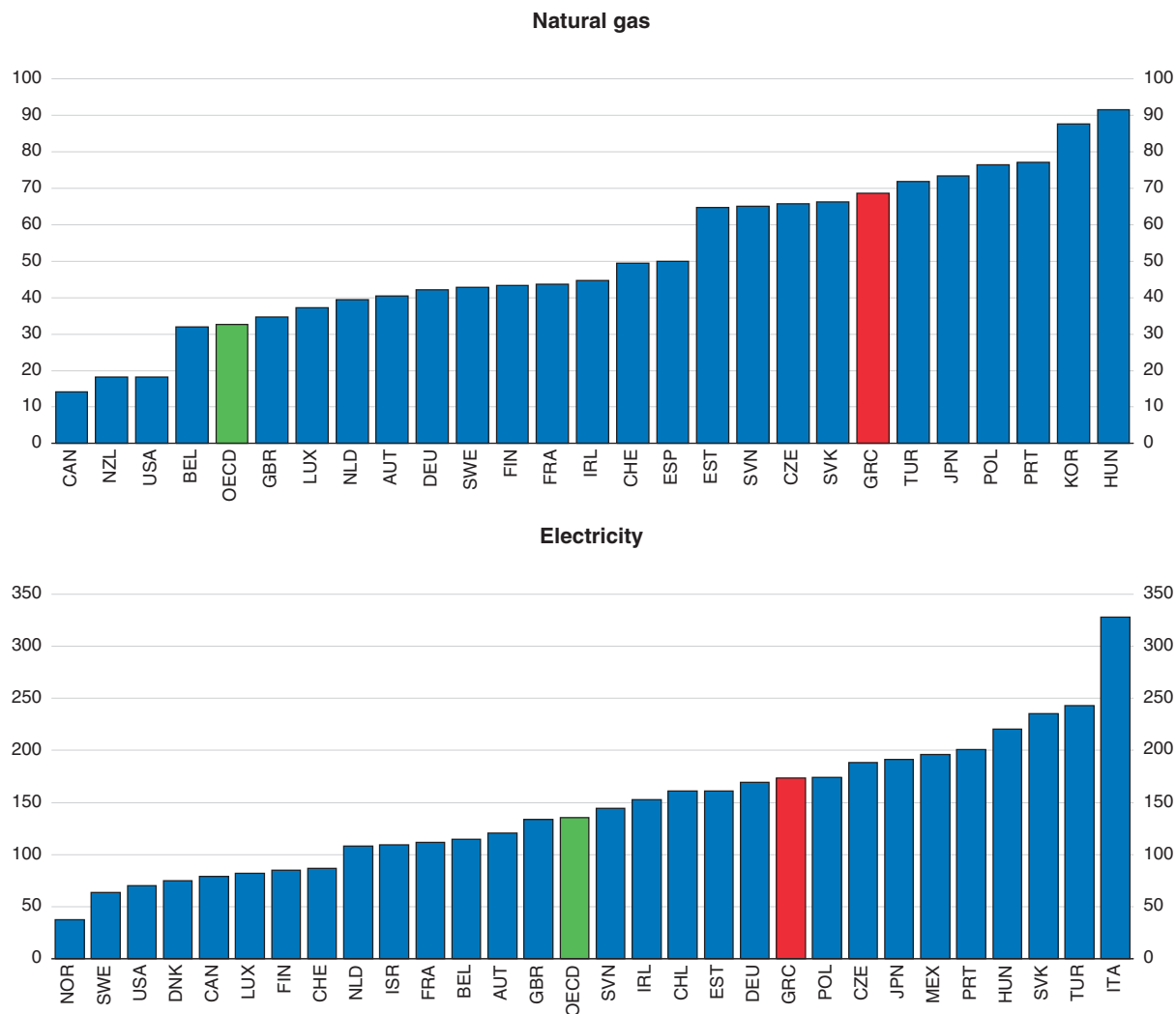
Source: OECD (2015), Product Market Regulation database.

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final energy consumption from renewable energy sources, 40 % of electricity production from renewable energy sources, 20 % for heating and cooling, and 10 % for transport (EEA, 2014).

The quality of transport infrastructure is low. The gap is particularly important for the railroad and to some extent also for roads. Reforms have been put in place to enhance the weak transportation sector, but the results have been mixed. Reforms are promising in the maritime (both cruise and freight) sector, with the successful partial privatisation of the Piraeus port. However, there is still considerable scope for developing port activities as a gateway to the land transportation network, not just for Greece but for the entire region (OECD, 2013).

Figure 30. Energy prices for industry
MwH, in USD PPPs, 2014 or latest available year



Source: IEA.

StatLink  <http://dx.doi.org/10.1787/888933337124>

More generally, the entire logistics system of the country is important for the export activity. According to the World Bank Logistics Performance Index, Greece lags behind the OECD average in every aspect cover by the indicator. More worrying, Greek performance has decreased since 2007. In that respect, a better use of public land through concessions or privatisations will be determinant in boosting investment in logistics and infrastructure. It will help the tourism sector and export activity more generally. Adopting the general transport and logistics master plan for Greece covering all transport modes, and the privatisation of the Piraeus and Thessaloniki ports and of the regional airports will also lower costs and raise efficiency.

Bringing regulation in network industries in line with the OECD average, as planned in the 2015 MoU, would increase output by an estimated 2.3% in the next decade. Furthermore, it would lift exports considerably. Controlling for different firm characteristics (e.g. age,

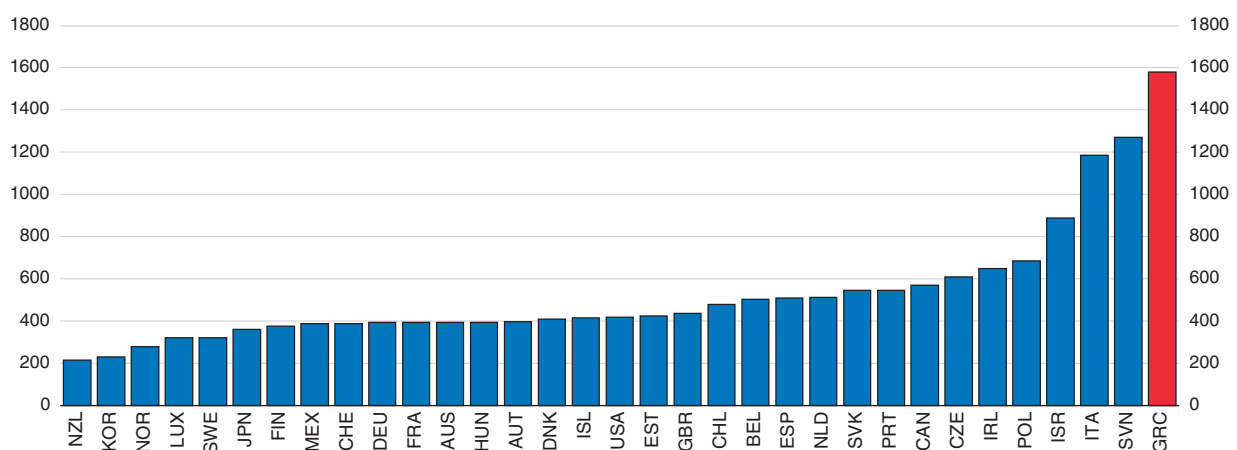
ownership and size), empirical evidence shows that the enhancing competition in network sectors has had a positive impact of Greek export performance since 2000 (Daude and De la Maisonnette, 2016).

High profit margins point to weak competition especially in construction, communication, legal, accounting, architectural and engineering activities. This reduces productivity of those sectors and sectors that use these services. Furthermore, some sectors such as construction are also sensitive in terms of potential collusion and corruption, as they participate in public tenders. Opening further these sectors to competition would generate higher productivity growth (Nickell 1996), Blundell et al. (1999) and Disney et al. (2003)) and boost export performance. Furthermore, lifting the remaining restrictions in regulated professions such as civil engineering, notaries, actuaries and bailiffs, as agreed in the 2015 MoU, would increase international competitiveness, as these services are inputs into the production and sale of exported goods and services.


Improving the business environment

Increasing the efficiency of the judiciary is a key element to improve the business environment as it reduces uncertainties and transaction costs. Greece ranks among the worst countries (155 out of 189) in the *World Bank's Doing Business* indicators regarding contract enforcement (Figure 31). The new Civil Procedure Code, which passed in July 2015 and addresses several major issues in the judiciary, should speed up trial completions and reduce the inflow of cases by eliminating frivolous cases. However, additional reforms such as moving towards more e-justice tools, more capacity building by training judges and court employees as well as setting up a better case monitoring system, deregulation of lawyers' fees and the development of arbitration and out of court settlements and establishing specialised competitions courts are essential to reduce the cost of contract enforcement for businesses. Furthermore, specific actions have to be taken to reduce the large backlog of cases in administrative and civil courts. For example, model trials – the extension of a particular trial to other cases with identical characteristics – could be a useful tool to reduce the caseload.

Figure 31. **Contract enforcement remains costly**



Source: World Bank Doing Business Database.

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The implementation of the one-stop shop for all licenses and permits for operating a business and the 2012 Law on Better Regulation would materially reduce administrative burden. Using regulatory impact assessments (RIA) more systematically would help to identify the effects of regulations on business and citizens before they are implemented. In particular, the gap in using these instruments for secondary legislation and regulations is significant. Sunset clauses to regulations that provide for the automatic review or expiry of laws as well as rules like in the United Kingdom's "one-in two-out" that create incentives to internalise and evaluate the cost of introducing new regulations would also help.

According to the Greek authorities, the implementation of a 'national single window' for exports, as foreseen by the National Trade Facilitation Strategy (NTFS) for Greece, would act as one-stop shop specifically for export procedures. The NTFS encompasses a broad range of reforms aim to simplify export procedures, and its full implementation is expected to significantly alleviate the high cost and long time periods involved in exports. Moreover *Enterprise Greece*, the recently created export and investment promotion agency, deploys annually an Action Plan for exports promotion and is responsible for promotional activities, branding, organisation of conferences, and development of domestic and international networking. Export promotion can help solving information problems for local producers regarding tastes of foreign consumers, quality standards and regulations in other markets and business opportunities abroad that are hard to acquire for small firms (Lederman et al, 2010). In the case of Greece, more could be done to promote exports and help SMEs reach international markets. The new export promotion action plan aims at addressing the above mentioned issues.

Financing is a major constraints for firms

Tight financial constraints facing firms have a direct impact on economic performance and exports, in part by restricting the reallocation of capital and labour from non-tradables to tradables. Especially SMEs have faced high cost and difficult access to credit as risk premiums rose and banks weakened. It is therefore not surprising that, according to the ECB, access to finance is regarded as the most important problem of Greek SMEs.

Greek commercial banks offer a number of trade finance products, such as letters of credit, suppliers' guarantees, discount financing, and documentary credits. Export-oriented SMEs also benefit from a number of official programmes both at local and international level but the take up of some of the existing schemes is low. In addition, lending facilities, guarantee programmes and other public support programmes are offered by the Greek government to local SMEs in cooperation with the European Investment Bank Group and the European Commission (Nassr, Robano, and Wehinger, 2016).

A development bank will be created to help SME funding. It will improve access to credit for SMEs by systematically organising all the funding opportunities from available both national and international sources, as recently done in France. The Institution for Growth (IfG) which was created in December 2013 is already part of the financing tools available. The IfG SME Debt-Sub-Fund was established in May 2014 with EUR 200 million coming from the Hellenic Republic and the German KfW to provide liquidity for SMEs (EC, 2014). The recent experience of Portugal and Ireland, who have also created national development banks, could also be a helpful reference to create a good institutional framework. A successful operation of the development bank requires a clear assessment of potential synergies and overlaps with other institutions, adopting a strong corporate governance framework and avoiding competition with the activities of commercial banks.

The share of SME financing provided through equity markets in Greece is currently very small, particularly when it comes to risk financing. Venture capital investment has been historically underdeveloped in Greece, but the near inexistence of such funding is particularly relevant and crucial at the current juncture. Total venture capital investment for 2014 reached USD 0.26 million, by far the lowest in OECD countries. The creation of a venture capital ecosystem with important direct links to university research and innovation could be a way to boost entrepreneurship and promote the creation of high value added products and innovative SMEs. High-quality securitisation of SME loans (and other liabilities such as leasing) can be seen as a market-based shortcut to indirectly foster SME financing, ‘unclogging’ the bank lending channel by transferring SME credit risk partially from originators to investors and achieving capital relief. Despite an increase in total securitisation issuance in the past years, only a small minority of transactions was actually placed with investors, with the majority of deals being retained for repo funding with the ECB throughout the period when such collateral was eligible for central bank repo refinancing (Nassr, Robano and Wehinger, 2016).

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ANNEX

Progress in structural reform

The objective of this Annex is to review action taken since the previous Survey (November 2013) on the main recommendations from previous Surveys.

Recommendations	Action taken since the previous <i>Survey</i>
A. Recommendations for fiscal policy and government reform	
Accelerating and broadening the structural reform programme is essential for sustainable recovery. In this respect, stronger reform ownership by all line-ministries, a better coordination of reform implementation and enhanced monitoring and evaluation of reform outcomes are essential. Evaluation results should be disseminated.	No action taken.
Implement fiscal consolidation measures as planned. If growth is weaker than expected, let the automatic stabilisers operate	In 2014 the general government primary surplus reached 0.3% of GDP, according to the methodology of the Economic Adjustment Programme. In the 2016 budget the general government primary balance is estimated at -0.2% of GDP and at 0.5% of GDP for 2015 and 2016 respectively, according to the methodology of the ESM Programme. According to the MOU for the 3-year ESM Programme, the primary surplus targets for 2015, 2016, 2017 and 2018 and beyond are -¼, 0.5, 1¼ and 3.5 % of GDP, respectively (in line with the methodology of the Programme). To this purpose, the yield of necessary fiscal measures is included in the 2016 budget and will also be included in the upcoming MTFS.
If negative macroeconomic risks materialise and nominal growth proves weaker than expected, even with full and timely implementation of structural reforms, serious consideration should be given to further assistance to achieve debt sustainability.	On 14 August 2015, the Eurogroup agreed on a new three-year ESM macroeconomic adjustment programme for Greece. In its statement, "the Eurogroup stands ready to consider, if necessary, possible additional measures (possible longer grace and repayment periods) aiming at ensuring that Greece's gross financing needs remain at a sustainable level."
Step up the fight against tax evasion by stopping tax amnesties and identifying and punishing evaders, and improving the effectiveness of audits. Improve the judicial system by overhauling and streamlining the civil code and making more use of out-of-court mediation systems.	A provision to stop tax amnesties has been included in law 4336/2015. A compulsory Special Administrative Process for administrative appeals has been established by Law 4174/2013, which concerns acts issued by the tax authorities since August 2013. It was established to serve cases that can be resolved immediately, as well as to act as a pre-audit stage for cases to be introduced to justice. The out-of court mediation was introduced in the Greek legislation by Law 3898/2010. It concerns the possibility of out-of-court settlement for civil and commercial cases that are not applicable to mandatory rules. The process is confidential, and if there is an agreement between the parties, the agreement is binding for them and can gain strength of a judicial decision (enforceability) under certain conditions.
Further enhance the efficiency of public administration, inter alia, through the development of e-government and the evaluation of staff performance based on clear individual objectives.	Restructuring in the public sector has been stipulated with the laws 4024/2011 and 4178/2013. The process involved an evaluation of public entities followed by a report with proposed scenarios and was submitted to the Government Council of Reform (GCR) for the final decision. The first phase of the restructuring was completed in November, 2014 with the implementation of the new organigrams of 16 out of 19 Ministries. In April 2014, the e-Government Strategy 2014-2020 was adopted. According to this strategy, in the next seven years, Greece aims to build a more efficient, transparent and accountable administration, through the use of ICT and the support of the necessary governance and monitoring mechanisms. The respective e-Gov actions are described and further elaborated within the e-Government Action Plan 2014-2020, which was adopted in January, 2015. In February 2016, a new law draft was submitted to Parliament with two main parts: a) evaluation of performance linked to goals setting, b) selection of managers in public administration. The performance evaluation is a main criterion for this selection. The public consultation has been completed and will be introduced to the parliament to be voted.
Provide adequate financial and regulatory means to the office responsible for applying the OECD Better Regulation Principles. The government should participate more actively in the on-going assessment and streamlining of legislation in 13 sectors of the economy to reduce the administrative costs.	By Law 4281/2014, a number of OECD recommendations representing approximately 80% of the administrative burden to be reduced, have been adopted. Nevertheless, some of the adopted recommendations in order for them to be fully operational, need further secondary legislation.
B. Recommendations for financial policy	
Enhance management of troubled assets and maximise recoveries in order to increase banks' ability to grant credit in the medium term.	A comprehensive strategy has been put in place aiming to facilitate the NPL resolution at the end of 2015. Its priorities include a reinforcement of legal and judicial reforms, enhancement of supervision tools and the introduction of third party servicers and purchasers allowing thus the endorsement of best practices to increase recovery rate and NPLs management speed.
Proceed with the planned evaluation of the insolvency framework for the business sector, with a view to lifting the obstacles that hinder effective debt resolution of firms.	Improvements in corporate insolvency regulations are either completed or under process regarding early stage, out-of-court and court procedures with a view to modernizing the law on a more realistic, efficient and fair basis and to provide an adequate legal framework aiming to encourage debt restructuring of the borrowers and to improve judicial system efficiency.

Recommendations	Action taken since the previous <i>Survey</i>
C. Recommendations to improve the functioning of markets	
Further reduce administrative burdens to promote investment. Continue streamlining administrative procedures for exports and imports and simplifying licensing procedures.	<p>The Government adopted Framework Law 4262/2014 on Investment Licensing Reform in order to simplify investment licensing procedures. The law is introducing, inter alia, less reliance on ex ante licenses and risk-focused ex post controls.</p> <p>Two joint ministerial decisions were issued: a) JMD 12684/92/2014 regarding the abolishment of the operating licenses in 103 activities and b) JMD 12997/145/2014 regarding the abolishment of Active fire protection certificate for a significant number of economic activities.</p> <p>The Greek Government in collaboration with the WB is proceeding with the simplification of the licensing procedures (secondary legislation) in selected priority sectors in the spirit of law 4262. The first set of priority sectors, deliverable up to June 2016, includes food and beverage industry, tourism, mining, catering and hospitality. In subsequent cycles of the project more sectors will be reviewed.</p> <p>Streamlining pre-customs procedures will take place as part of the trade facilitation action plan. Upgrade of the agents associated with exports, such as “Enterprise Greece” and export consultants, and creation of the national single window will be part of the export promotion action plan to be delivered by the time of first review.</p>
Accelerate the privatisation programme, in particular in energy, railways, regional airports, ports and real estate. This should be accompanied by swift progress in liberalisation to avoid the creation of private monopolies and to boost efficiency and growth.	<p>The Hellenic Republic Asset Development Fund has promoted its privatisation programme: i) A 40-year Concession Agreement with Fraport AG – Slentel Ltd. Consortium for the operation of the 14 Greek Regional Airports; ii) SOCAR confirmed its interest for the completion of the privatisation of DESFA with the extension, of the Share Purchase Agreement and the guarantee letter of 40 million; iii) The tender process for the sale of a 67% stake of Piraeus Port Authority S.A. has been concluded in January 2016; iv) The tender process for the acquisition of 67% of the share capital of Thessaloniki Port Authority S.A. is expected to be concluded in April 2016; v) Sale of 100% shares of Hellinikon S.A. (former Athens airport), which will get ownership of 30% of the property and have the right to develop (surface) and manage 100% of the property for 99 years; vi) Sale of 81,122,156 shares of Astir Palace S.A., including Marina Subsidiary; vii) Sale of 100% shares of SPVs set up by HRADF for Golf Afandou & Southern Afandou; viii) Plans for the sale of 30% of shares and extension of concession of the Athens International Airport; ix) Phase 2 of the tender process (leading to submission of bidding offers) for the acquisition of 100% of TRAINOSE S.A. and Hellenic Company for Rolling Stock Maintenance S.A. (ROSCO) shares.</p>
Channel available EU funds to improve the transportation network.	<p>The Sectoral Operational Programme “Infrastructure for Transport, Environment & Sustainable Development” has already been specialized, at the first Monitoring Committee (03-07-2015) thus, the public infrastructure investment that will be co-funded is almost completely allocated (77% of the funds available is allocated).</p>
Further promote competition in the energy sector.	<p>In December 2015 the Authorities agreed with the institutions on a plan that will separate the electricity transmission system operator (ADMIE), from PPC, the incumbent. At the end of the process the Hellenic Republic will hold 51% of ADMIE, with a strategic investor (another TSO) holding 20%, and 29% on the stock market. The HR and the investor will co-decide on the CEO and the business plan, and the shares of ADMIE and of PPC held by the HR will be managed accordingly to the “unbundling within the State” principles. The feasibility of the plan will be assessed by independent advisors, appointed after consultation with the Institutions. If no feasible solutions are identified, all PPC shares in ADMIE have to be sold to private investors.</p>
D. Recommendations for a more effective welfare system	
Enhance governance of social programmes by speeding up the consolidation of the management of social insurance funds and accelerating harmonisation of information systems across the funds, which is essential for targeting benefits to protect the most vulnerable.	<p>Some SSF's lacked a provision for lifelong disability and obliged this category of pensioners to apply for disability pension every 3 years, despite the fact that they have been diagnosed with lifelong disability. Art 11. of Law 4331/2015 corrects for this. Furthermore, the interconnection of IT systems of Ministries of Labour, Social Security and Welfare, Interior, and Finance was legislated by Law 4144/2013.</p>

Recommendations	Action taken since the previous Survey
Target selected social benefits more efficiently and introduce a properly targeted minimum income scheme.	<p>Since November 2015, the Government of Greece is undertaking the Social Welfare Review, with the assistance of the World Bank, to increase the effectiveness and efficiency of the social protection system in Greece. The ultimate objective is to create a more comprehensive welfare system, with a guaranteed minimum income (GMI) scheme at its centre to improve social cohesion in Greece. The Social Welfare Review will examine in depth the effectiveness of the existing system of social assistance.</p> <p>From mid November 2014 to mid May 2016 Greece implemented a pilot GMI scheme. The new Stability Support Programme for Greece provides for a gradual national roll-out to be completed by 2017. Co-financed by the European Social Fund, the pilot has now been completed.</p> <p>The new scheme would offer people a basic income support, complemented by activation measures and coordinated with other support services such as healthcare and housing. This should help to sustain income especially during a downturn and help maintain the link to the labour market. Once roll-out is completed, almost half of the Greek population at risk of poverty is expected to be covered by the GMI (1.2 million people). The GMI programme has an estimated cost of 0.5% of GDP (EUR 1 billion).</p>
Intensify controls on recipients of welfare benefits, especially of disability benefits, by increasing the frequency of re-assessments, as envisaged, and by ensuring effective monitoring and timely data.	No action taken.
Introduce a national programme of subsidised, means-tested school meals.	Law 4331/2015 provides free school meals for pupils suffering from malnutrition. On November 23rd the Greek Government sent a request to the European Commission to explore the eligibility for distribution of prepared meals (soup kitchens) in schools under the FEAD.
Consider over the longer term and the fiscal situation allowing, increasing the duration of unemployment insurance benefits by another year, but tapering the benefits over time.	No action taken.
Harmonise contribution rates to pension and sickness funds.	The contribution rates and the social remuneration of old insured employees of E.T.E.A. (until 31/12/1992) were harmonised with those of the new insured employees (since 1/1/1993) by Law 4225/2014.

E. Recommendations for health care services

To the extent it is fiscally possible, continue to extend measures to ensure health care access for unprotected and vulnerable groups until the economy improves.	<p>Ensuring universal coverage and universal access to health care services and goods was set as an explicit objective of the health reforms under the first and the second economic adjustment programmes. In 2014, the institutions made it a prior action that a set of short- and medium-term policies would be implemented to ensure universal coverage of all residents and Greek citizens, extending coverage to the uninsured and low income groups and ensuring their access to pharmaceuticals, diagnostics and hospital inpatient care. As a result a number of policies were implemented. Amongst these, in 2014, universal access to healthcare was established through the following legislation: Law 4238/2014 (February 17.02.2014) on primary care and diagnostics, supported by two implementation Joint Ministerial Decrees (F :1456/B/5.6.2014 and 1753/ /28.6.2014). As part of the Primary Health Care legislation, all Greek citizens are given the right to primary care, including diagnostic tests. Importantly, the uninsured are granted free access to hospital care in the network of NHS (ESY) public health care facilities and to pharmaceutical care.</p>
Monitor closely the health impact of the crisis on the population and, if required, take further actions to protect public health.	<p>In line with the Memorandum of Understanding with the Institutions, promoting and supporting the roll out of the new Primary Health Care system as envisaged in the relevant legislation (Law 4238/2014), the Government is focusing on public health (establishment of National Public Health Board in progress) and primary care to offset the impact of recession. Further, work on secondary prevention (screening) programmes for chronic diseases and the continuous health monitoring of approximately 1.35 million immigrants and refugees that entered the country is currently in progress.</p>

Recommendations	Action taken since the previous <i>Survey</i>
Focus health care cuts on reducing inefficiencies, while avoiding cuts on efficient and critical programmes.	<p>In a joint effort with the Institutions, as specified in the Memorandum of Understanding, the Government amplifies hospital procurement through legislation, has established Negotiations Task Force, with high-cost drug as a focal point and the establishment of National Health Technology Assessment Centre is in progress.</p> <p>In addition, under the previous and current adjustment programmes, the work continues to improve the efficiency, effectiveness and governance of the health care system. This translated into the extension of policies to rationalise pharmaceutical expenditure, both through lower prices and prescribing protocols in line with best practice. Further, the Memorandum promotes of a greater use of generics and tendering and centralised procurement. Lastly, the measures as part of the programme aim to reduce fraud and waste. Amongst others, the implementation of improved budgeting and transparency, regular monitoring and e-prescription continue in this direction, together with measures to promote a transparent and meritocratic recruitment of hospital managers.</p>
F. Recommendations for labour market policy	
Tackle high unemployment, especially among youth, by strengthening activation programmes and evaluating their effect in promoting employment to focus on the successful ones. Strengthen the effectiveness of the labour inspection system, as planned, to ensure full enforcement of the labour code, and step up inspections and sanctions.	<p>Regarding training, a voucher for access to the labour market which targets 12 000 young unemployed aged 18-24 was launched in September 2014 and will be completed by June 2016. it constitutes an integral part of the national Youth Guarantee Implementation Plan and it is YEI (Youth Employment Initiative) financed.</p> <p>Furthermore, a voucher for 30 000 young people aged 25-29 years old in the private sector to gain work experience is currently in force. The action aims at the entrance of young unemployed into the labour market mainly through internships offered by private sector enterprises.</p> <p>Additionally, a voucher for access to the labour market in the tourism sector was launched for 8 000 young unemployed aged 18-29 and it will also be YEI financed. Public benefit employment schemes were launched as well. The programmes aim to improve the economic situation of the unemployed, to effectively support vulnerable social groups, to meet social needs and enhance the services provided to citizens. The beneficiaries are employed full-time for a period of five months in Municipalities, Regions and other public services pursuant to Law 4152/2013. The programme intends to address the labour demand shortages in the private sector due to the recession.</p> <p>During 2015 the new cycle of public benefit employment schemes in municipalities and other public sector entities, that benefit a total of 52 000 persons (young people aged 18-24 included), has been implemented. The total budget of the programme amounts to EUR 200 million.</p> <p>The implementation of ALMPs in Greece depends on the availability of financial support by the ESF and other community financial resources. Greece fully exploits the resources of EU structural funds, which are crucial to the design and implementation of measures in support of the unemployed but not sufficient to address the acute problem of unemployment. The total amount devoted to youth (YEI and ESF combined) amounts to EUR 343 million.</p> <p>In 2015, employment programmes were redesigned in order to increase their efficiency and to have the greatest possible result for the unemployed. For instance, the training voucher programme addressed to unemployed aged 29-64 years old will benefit 26,000 people instead of 16,000 as initially planned. The total budget of the programme is EUR 112 million.</p>
Condition access to unemployment benefits on stricter obligations for participation in training and employment service programmes. Extend this principle to active job search as the economy improves. Strengthen sanctions for non-compliance.	No action taken.

Recommendations	Action taken since the previous Survey
G. Recommendations for strengthening growth	
Recommendations to improve the functioning of the public sector	
Rapidly solve the problem of recruitment of qualified staff and modernisation of working methods of the tax administration. Better link and crosscheck information concerning taxpayers' bank accounts, wealth and status with respect to social security contributions.	Nearly 400 new highly qualified employees took office since August 2013 and 500 more new employees are expected to take office by the end of 2016. A new payroll system, that gives motivation to highly qualified employees, is expected to be in force by January 2016. So far, the GSPR still applies the recruitment procedure through ASEP - which is in force to the entire public sector in Greece. GSPR has developed a System of Bank Account and Payment Account Registries, which currently gives information for the existence, balances and movements of bank accounts in Greece that can be consulted by authorized public sector entities. In the near future it will also provide information on loans. The ENFIA application will be utilized for the development of an Assets Registry. With reference to exchange of information for tax purposes, Greece signed, in October 2014, the Multilateral Competent Authority Agreement to implement the OECD Standard for Automatic Exchange of Financial Information in Tax Matters and has committed to start exchanging information as an Early Adopter by September 2017.
Over the medium term, consider ending the generalised practice of lifetime employment guarantees for civil servants.	No action taken.
Target medical spending cuts. Further promote use of generics and cut excessive hospital administration costs. The rule imposing the replacement of only one in every five retiring civil servants should be relaxed in the case of nurses. If needed, the negative budget consequence can be offset by imposing a more stringent replacement rule for retiring doctors, given their high number.	No action taken.
Empower the General Secretariat responsible for steering the reforms within the Prime Minister's office, with adequate resources to arbitrate, co-ordinate and supervise implementation of the reforms.	No action taken
Improve data collection and dissemination to better monitor implementation and outcomes of structural reforms.	No action taken.
Recommendations to improve functioning of product markets	
Plan an assessment of the recent Hellenic Competition Commission's reform over the next two-to-three years to check if HCC's capacity for determining its case priorities is working.	No action taken.
Further promote competition in the retail sector, taking into consideration the forthcoming OECD proposals, after the completion of the detailed review of this sector using the OECD's Competition Toolkit. Encourage the development of discounters, by facilitating the establishment of new points-of-sale with a less restrictive licensing procedure. Encourage comparative advertising, by reviewing and ensuring that the criteria imposed for its development are not too restrictive.	Regarding OECD proposed actions on retail trade as described in the relevant Competition assessment the following have been done: Sunday trading: 1. A) all retail shops have the option to open for seven Sundays in the year from 11:00 until 20:00; B) the deputy prefect defines the areas within the prefecture in which the retail stores can optionally operate on additional Sundays within three months of the law being passed; and C) the law applies to the following types of stores: i) retail stores with a maximum surface of 250 m ² , ii) retail stores that are not chain stores (franchise stores are excluded from this restriction), iii) retail stores that are not shops-in-shops and are not located in outlets, malls or outlet villages. 2. A JMD has defined 3 touristic areas that stores can be open all Sundays (pilot). Promotions, seasonal sales & discounts; Street markets-outdoor trade; Fuel trade: All recommendations have been adopted. OTCs: Baby milk, vitamins and food supplements are already able to be sold outside pharmacies; soon this will apply to more OTCs. Pharmacies: a) Recommendations regarding minimum distance and trading hours have been adopted. b) provisions on ownership of pharmacy only by pharmacist have been lifted as well as provisions concerning partnerships between pharmacists. Books: A fixed retail price only applies to the 1 st publication of literature books, with a 2-year time limit. Retail licensing: A) 3 JMDs have been issued on simplification of establishing 25 main types of operation of retail outlets. B) Another JMD has been issued on simplification of establishing operations of sanitary interest.

Recommendations	Action taken since the previous Survey
Speed up the creation of a land registry (cadastre) and stabilise the tax environment, in particular property taxes.	The cadastre is expanding to more areas. Since 15 December 2015, the cadastre of Salonica is operational.
Channel available EU funds to improve the transportation network. Carefully plan public infrastructure investment with rigorous and transparent cost/benefit analysis and closely supervise the projects identified. Consider creating a specialised agency to this task to promote proper use of public investment resource.	The Sectoral Operational Programme "Infrastructure for Transport, Environment & Sustainable Development" has already been specialized, at the first Monitoring Committee (03-07-2015) thus, the public infrastructure investment that will be co-funded is almost completely allocated (77% of the funds available is allocated). Furthermore a call has been launched (30-11-2015) for all the potential Beneficiaries to use Technical Aid to submit rigorous and transparent cost-benefit analyses for their projects. The Managing Authority closely monitors the projects in accordance with the National and European Law, along with the Certification and Audit Authorities.
Swiftly implement the planned creation and privatisation of new competitors in the electricity market. Further promote competition in the gas supply sector.	No action taken.
H. Recommendations on promoting a fair sharing of the costs and benefits of adjustment	
Ensuring a more effective welfare system	
Introduce a well-targeted housing benefit.	No action taken.
Strengthen the management of social welfare benefits by exerting more central control of earmarked grants to local authorities. Increase the accountability of local governments for the allocation of social spending through a more rigorous auditing system and by enhancing transparency with regard to the use of the grants.	No action taken.
Intensify controls on recipients of welfare benefits, especially of disability benefits, by increasing the frequency of re-assessments, as envisaged, and by ensuring effective monitoring and timely data.	No action taken.
Consider over the longer term and the fiscal situation allowing, increasing the duration of unemployment insurance benefits by another year, but tapering the benefits over time. The net replacement rate of unemployment insurance benefits could also be brought closer to the international average.	No action taken.
Over the longer term, once the envisaged minimum income scheme is fully implemented and the duration of unemployment insurance has been increased, the unemployment assistance benefit could be abolished to simplify the social welfare system.	No action taken.
Enhancing equality in the pension system	
Remove remaining inequalities in the treatment of occupational groups under the reformed pension system by abolishing special rights.	Additional special rights were abolished by law 4254/2014.
Harmonise contribution rates to pension and sickness funds.	The contribution rates and the social remuneration of old insured employees of E.T.E.A. (until 31/12/1992) were harmonised with those of the new insured employees (since 1/1/1993) by Law 4225/2014.
Ensuring equal access to good health care services	
To the extent it is fiscally possible, continue to extend measures to ensure health care access for unprotected and vulnerable groups until the economy improves.	No action taken.
Monitor closely the health impact of the crisis on the population, and, if required, take further actions to protect public health.	No action taken.
Focus health care cuts on reducing inefficiencies, while avoiding cuts on efficient and critical programmes.	No action taken.
Making the distribution of tax burden fairer	
Impose fair and transparent penalties to tax evaders to increase compliance.	In the context of the rationalization of fines it is systematically attempted by the Tax Administration to stop assessing high fines with a low collectability (less than 0.5% for infringements of HCABR) and focus on determining the height of the concealed tax (for example due to the non-issuance of an invoice).
Regularly update real estate values used to calculate property taxes.	In November 2015, the General Secretariat for Public Property established four committees (Athens, Thessaloniki, Piraeus, Patras - Government Gazette 868/27.11.2015) with the task of submitting a proposal on new, rational objective values throughout the Greek territory. On the basis of these a Ministerial Decision setting the new objective values has been issued in January 2016.

Recommendations	Action taken since the previous <i>Survey</i>
<i>Getting people to jobs</i>	
Bring forward to the extent possible the implementation of the restructuring plan of the public employment service (OAED). Monitor closely the post-programme outcomes (such as job characteristics and earnings) of the activation programmes, and focus spending on those that prove successful.	No action taken.
Condition access to unemployment benefits on stricter obligations for participation in training and employment service programmes. Extend this principle to active job search as the economy improves. Strengthen sanctions for non-compliance.	No action taken.
<i>Strengthening the role of the Labour Inspectorate</i>	
Strengthen the effectiveness of the labour inspection system, as planned, to ensure full enforcement of the labour code, and step up inspections and sanctions. Implement the action plan to reform the labour inspection system.	The Government passed Law 4144/2013 and Law 4254/2014 for the enhancement of the inspection systems in the labour market.
Proceed with the simplification of the labour code.	No action taken.

Thematic Chapters

Chapter 1

Structural reforms to boost inclusive growth

This chapter takes stock of the main structural reforms that Greece has undertaken since 2010, those currently proposed and that are in the process of implementation, and quantifies the medium and long term effects on output. Special attention is given to three issues that are relevant to understanding reform dynamics in Greece: i) the short-term impact of reforms; ii) the effect of some reforms on income inequality and other socioeconomic outcomes; iii) implementation problems that might undermine the ability of structural reforms to deliver their expected outcomes. The reforms, if fully implemented, could raise output by more than 13% over the next decade. Reforms in product markets are particularly important in boosting growth. Poverty and inequality have increased despite policies to mitigate the social impacts of Greece's deep depression since 2009. Better social policies are needed to strengthen the social safety net and make growth more inclusive. Much of the burden of adjustment has been borne by labour. Labour market institutions should balance the objectives of increasing jobs, reallocating workers to where they can earn the most, and ensuring the fruits of the economic recovery are widely shared.

Chapter 2

How to boost export performance

This chapter analyses the structure of Greek exports and presents policy recommendations to boost export performance. Despite recent improvements, export performance deteriorated in the last decade particularly in the service sector. The decline in unit labour costs since the beginning of the crisis has restored cost competitiveness, but the response of exports has been sluggish due to severe liquidity constraints of exporters, lack of investment in export industries and in part because prices did not adjust as fast. Greece is dominated by SMEs and specialised in low-technology goods which makes it difficult to be well integrated into global value chains. Structural problems in product markets, barriers to exporting, access to finance and administrative burden affect competitiveness and impede export performance. Boosting investment in infrastructure and logistics, further liberalising the network industries, improving investment in human and knowledge-based capital to allow upgrading in the GVCs will be essential to enhance export performance.

This Overview is extracted from the 2016 Economic Survey of Greece. The Survey is published on the responsibility of the Economic and Development Review Committee (EDRC) of the OECD, which is charged with the examination of the economic situation of member countries.

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The previous Survey of Greece was issued in November 2013.

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