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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Greece were reviewed by the Committee on 21 October 2013. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 14 November 2013.

The Secretariat's draft report was prepared for the Committee by Claude Giorno, Vassiliki Koutsogeorgopoulou, with a contribution from Manos Matsaganis, Spyros Pagratis and Jan-David Schneider under the supervision of Piritta Sorsa. Research assistance was provided by Isabelle Duong.

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BASIC STATISTICS OF GREECE, 2012

(Numbers in parentheses refer to the OECD average)[a]

LAND, PEOPLE AND ELECTORAL CYCLE

Population (million)	11.3		Population density per km^2	85.9	(34.3)
Under 15 (%)	14.1	(18.1)	Life expectancy (years, 2011)	80.8	(80.0)
Over 65 (%)	19.5	(15.3)	Males	78.5	(77.3)
Foreign-born (%, 2011)	6.6		Females	83.1	(82.8)
Latest 5-year average growth (%)	0.3	(0.6)	Last general election	June 2012	

ECONOMY

Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	248.9		Primary	3.4	(2.5)
In current prices (billion EUR)	193.6		Industry including construction	16.4	(27.7)
Latest 5-year average real growth (%)	-4.4	(0.6)	Services	80.2	(69.8)
Per capita, PPP (thousand USD)	25.2	(37.1)			

GENERAL GOVERNMENT

Per cent of GDP

Expenditure[b]	54.8	(42.8)	Gross financial debt[b]	165.4	(102.4)
Revenue[b]	44.8	(36.2)	Net financial debt[b]	102.6	(65.6)

EXTERNAL ACCOUNTS

Exchange rate (EUR per USD)	0.778		Main exports (% of total merchandise exports)	
PPP exchange rate (USA = 1)	0.678		Mineral fuels, lubricants and related materials	38.9
In per cent of GDP			Manufactured goods	14.1
Exports of goods and services	27.0	(53.6)	Food and live animals	13.1
Imports of goods and services	32.1	(50.1)	Main imports (% of total merchandise imports)	
Current account balance	-3.4	(-0.4)	Mineral fuels, lubricants and related materials	37.7
Net international investment position	-79.7		Machinery and transport equipment	17.3
			Chemicals and related products, n.e.s.	13.3

LABOUR MARKET, SKILLS AND INNOVATION

Employment rate (%) for 15-64 year olds	51.3	(65.0)	Unemployment rate (%)	24.2	(7.9)
Males	60.7	(73.1)	Youth (%)	55.3	(16.2)
Females	41.9	(57.0)	Long-term unemployed (%)	14.4	(2.7)
Average worked hours per year	2 034	(1 766)	Tertiary educational attainment		
Gross domestic expenditure on R&D			25-64 year-olds (%, 2011)	26.1	(31.5)
(% of GDP, 2007)[b]	0.6	(2.4)			

ENVIRONMENT

Total primary energy supply per capita (toe)	2.3	(4.2)	CO_2 emissions from fuel combustion		
Renewables (%)	8.7	(8.5)	per capita (tonnes, 2010)	7.5	(10.1)
Fine particulate matter concentration			Water abstractions per capita (1 000 m^3, 2007)	0.9	
(urban, PM10, µg/m^3, 2010)	27.3	(20.1)	Municipal waste per capita (tonnes, 2010)	0.5	(0.5)

SOCIETY

Income inequality (Gini coefficient, 2010)	0.337	(0.304)	Education outcomes (PISA score, 2009)		
Relative poverty rate (%, 2010)	25.9	(23.4)	Reading	483	(493)
Public and private spending (% of GDP)			Mathematics	466	(496)
Health care (2011)	9.1	(9.5)	Science	470	(501)
Pensions (2009)	13.1	(8.7)	Share of women in parliament (%, July 2013)	21.0	(25.8)
			Net official development assistance (% of GNI)	0.1	(0.4)

Better life index: *www.oecdbetterlifeindex.org*

a) Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exists for at least 29 member countries.

b) 2011 for the OECD.

Source: Calculations based on data extracted from the databases of the following organisations: OECD, International Energy Agency, World Bank, International Monetary Fund, Inter-Parliamentary Union.

Executive summary

Main Findings

Economic recovery

Greece, which has been under an internationally coordinated adjustment programme since 2010, has made impressive headway in cutting its fiscal deficit and implementing structural reforms to raise labour market flexibility and improve labour competitiveness. Shrinking domestic demand has also led to a substantial reduction of the current account deficit. Slow product market reforms held back price competitiveness and exports in the recent past, but there are signs that the fall in unit labour costs has started to pass through to export prices and competitiveness. The depression has been much deeper than expected, which has undermined debt sustainability, induced a dramatic rise in unemployment, which affected more than 27% of the labour force at mid-2013 and raised social tensions, especially in the first years of the programme. Economic growth is held back by weak domestic and global demand, difficult access to credit and limited macroeconomic policy room for manoeuvre. The fiscal stance will remain restrictive, although less so in 2014 than in recent years. Encouraging economic developments in mid-2013 related, *inter alia*, to a good tourism season, which are expected to continue through 2014, mitigate the risks to growth. However, these risks are still on the downside. Together with the additional adjustment needed on the fiscal side and price competitiveness, the need for further assistance to achieve fiscal sustainability cannot be excluded.

Dealing with growth obstacles through further structural reforms

Major structural reforms have been introduced in several domains, but more needs to be done. A rapid, sustained and inclusive recovery is key to debt sustainability, employment creation and easing the social costs of the crisis. Major restructuring and recapitalisation of banks have provided the basis for credit provision to the economy. However large portfolios of bad assets continue to weigh on credit supply, especially to small and medium enterprises (SMEs). Although administrative burdens have been already somewhat reduced, remaining product market impediments continue to hinder further improvements in price competitiveness, and further reallocation of resources towards exports is needed. Reform of the public administration has been slow, however efforts to address the serious inefficiencies of the large public service have recently accelerated. Tax evasion remains a key concern. The judicial process is improving, but it is still slow and costly. Important reforms in legislation and procedures have taken place, but their effectiveness can only be appreciated in the next few years. Continuous monitoring and evaluation of the reform process is of crucial importance.

Fairly sharing the costs and benefits of adjustment

Despite fiscal measures which cushioned the impact on inequality, the recession and fiscal consolidation have worsened income distribution and poverty as unemployment has risen and real incomes have declined. The social impact has been aggravated by the lack of a general safety net and low and poorly targeted non-pension social spending. Recent and proposed measures, including a pilot programme of means-tested minimum income and a change in the scheme for long-term unemployment benefits, should improve the targeting of support to the neediest. The governance of social programme is a challenge. Health care has suffered in the crisis and, despite reform measures that rationalised spending, inefficiencies remain. The sharp rise in the unemployment rate, especially for the young, has not been adequately matched by activation policies. At the same time, it is important to strengthen the effectiveness of the labour inspection to ensure that the labour market liberalisation, implemented to promote competitiveness, does not risk a deterioration of working conditions.

Key Recommendations

Economic recovery

- 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.
- Implement fiscal consolidation measures as planned. If growth is weaker than expected, let the automatic stabilisers operate.
- 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.
- Enhance management of troubled assets and maximise recoveries in order to increase banks' ability to grant credit in the medium term.

Dealing with obstacles to growth

- Further reduce administrative burdens to promote investment. Continue streamlining administrative procedures for exports and imports and simplifying licensing procedures.
- 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.
- Step up the fight against tax evasion by stopping tax amnesties, 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.
- 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.

Fairly sharing the costs and benefits of adjustment

- 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.
- Target selected social benefits more efficiently and introduce a properly targeted minimum income scheme.
- Focus health care cuts on reducing inefficiencies, while avoiding cuts on efficient and critical programmes.
- 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.

Assessment and recommendations

Greece has made substantial progress in reforming its economy in a short period of time. A record fiscal consolidation by OECD standards has reduced the deficit, pension and health care reforms have enhanced longer-term fiscal sustainability, and structural reform has improved labour market flexibility and cost competitiveness. However, the adjustment programme agreed in 2010 between the Greek authorities, the International Monetary Fund, the European Commission and the European Central Bank has not yielded the expected results in restoring activity, which has been hit much harder than in other euro zone countries with adjustment programmes, such as Ireland, Portugal or Latvia (which has a euro peg). This has worsened the debt problem, despite the debt restructuring that took place in 2012, while unemployment has sharply increased. Restoring growth, making it sustainable and dealing with social costs are essential to the success of the adjustment programme.

Fostering an economic recovery

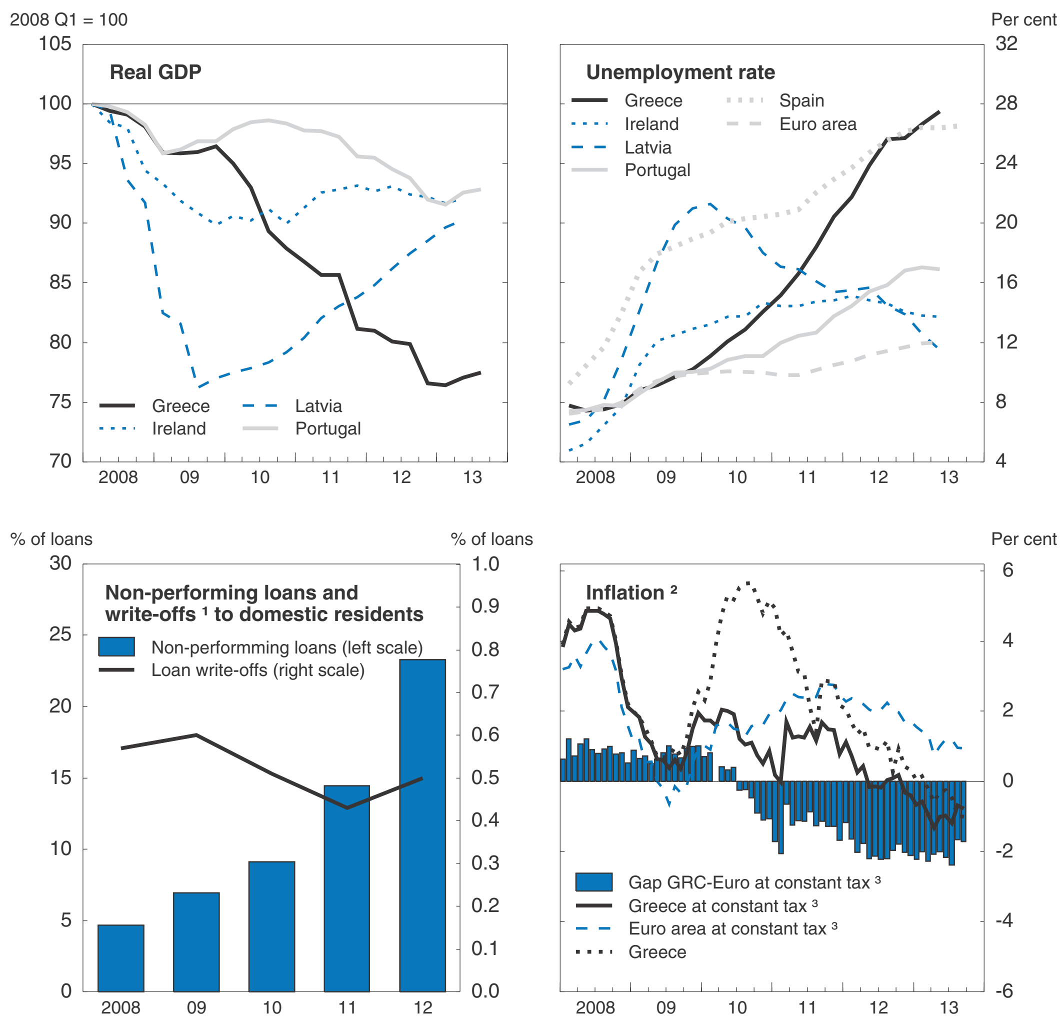
Weak private sector balance sheets and exports dim the outlook

GDP has fallen again in 2013, although by less than had been expected a few months ago (Figure 1). The very large fiscal consolidation has cut domestic demand. Lower disposable income has pushed up non-performing loans, while losses from the sovereign debt restructuring have substantially weakened banks' balance sheets. The sharp drop in nominal wages is likely to continue as high unemployment persists (Table 1). Moreover, sluggish price adjustment resulting from product market rigidities despite recent reform progress, increases in non-wage costs, including raw materials and direct taxes, and hikes of indirect taxes is likely to further weigh on households' real incomes and demand.

Exports of goods and services have underperformed because Greece's export markets have been weak and its price competitiveness has not improved nearly as much as its cost (wage) competitiveness. Since the beginning of the crisis, labour costs have declined to levels last seen in the early 2000s, but the same is not true of prices (Figure 2), even though inflation became negative in March 2013 for the first time in over 50 years and, once the effect of tax increases is removed, inflation has been lower in Greece than in the rest of the euro area since mid-2010.

Based on prices, the real exchange rate is probably overvalued although the estimates vary across studies. This partly reflects the high price level in Greece prior to the euro (Anastasatos, 2008), and especially the cumulative effect of persistently high inflation in Greece since euro adoption (OECD, 2011a). As a result, in contrast to Ireland and Portugal, Greece's export market share of goods and services has shrunk, although export performance for goods, especially in non-EU markets, has improved (Aiginger, 2013). Greek goods exports are concentrated in low-tech products for which price competitiveness is

Figure 1. **Key indicators**



1. Write-offs expressed as annual flows; non-performing loans include restructured loans.
2. Year-on-year growth rate of the harmonised consumer price index.
3. HICP at constant tax rates mean indices that measure changes in consumer prices without the impact of changes in rates of taxes on products over the same period of time.

Source: Bank of Greece; Eurostat; IMF, *Financial Soundness Indicators database*; OECD, *OECD Economic Outlook database*.

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important. However, there is a clear trend for Greek companies to become export-oriented over the last two years, with an increased focus on more innovative products. The slow price adjustment seems to be one of the important reasons for the difference in export performance between Ireland, Portugal and Greece. Some specific factors, including heightened uncertainties, also contributed to poor growth of service exports (especially tourism), although they have dissipated since mid-2013. Weak global trade and oversupply in the shipping sector have significantly reduced transport receipts, which account for more than half of exports of services. Until recently, large uncertainties, weak demand, lack of credit and high financial costs have weighed on domestic and foreign direct investment and limited the broadening of the export sector.

Table 1. **Macroeconomic indicators and projections**

Annual percentage change, volume (2005 prices)

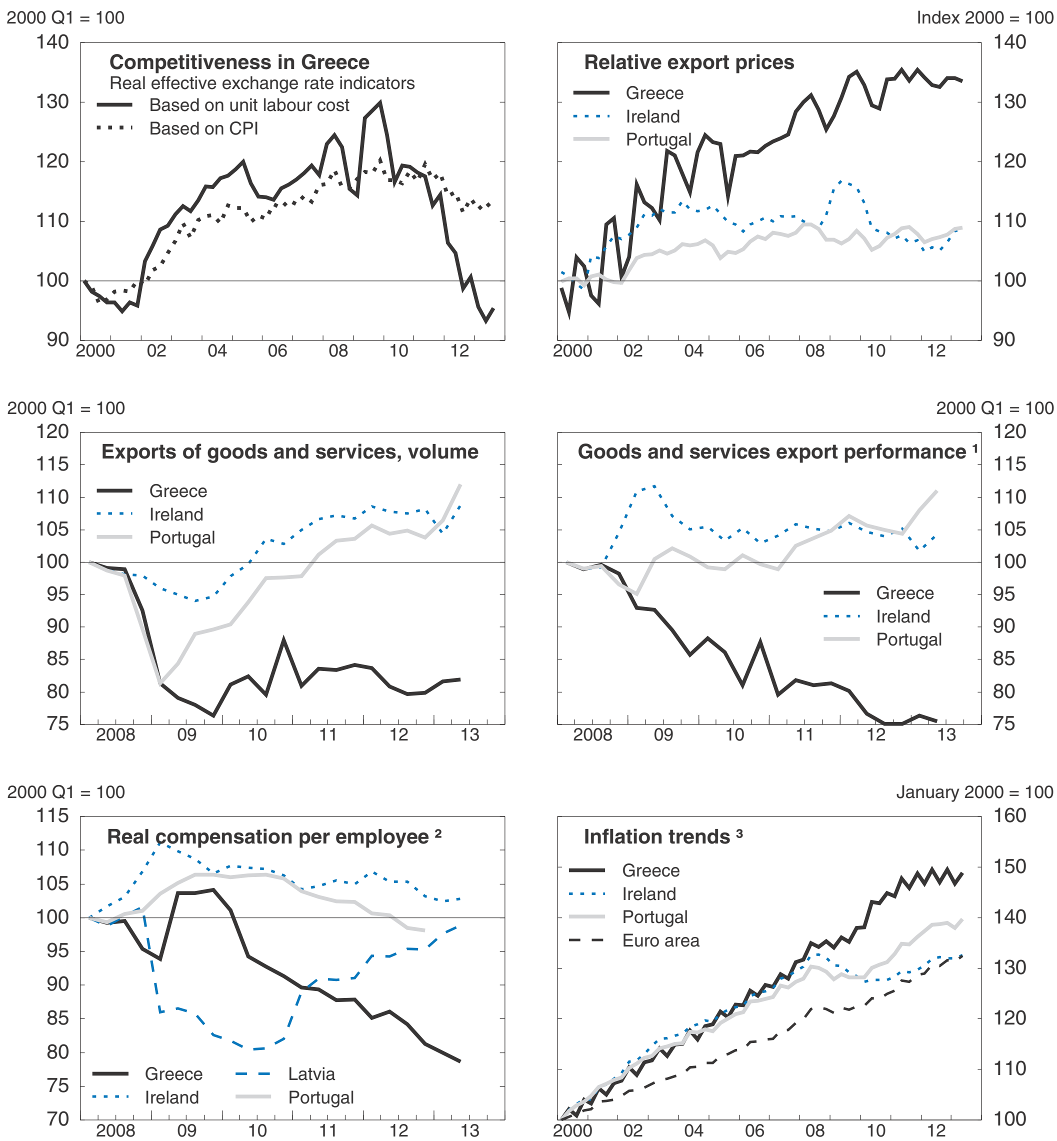
	2010 current prices, EUR billions	2011	2012	2013	2014
GDP	222.2	-7.1	-6.4	-3.5	-0.4
Private consumption	163.1	-7.7	-9.1	-6.4	-2.6
Government consumption	40.7	-5.2	-4.2	-4.9	-4.0
Gross fixed capital formation	39.2	-19.6	-19.2	-9.6	-1.2
Final domestic demand	243.0	-9.2	-9.7	-6.5	-2.7
Stockbuilding[1]	-0.2	0.6	0.1	0.3	-0.2
Total domestic demand	242.8	-8.7	-9.4	-5.7	-2.8
Exports of goods and services	49.4	0.3	-2.4	2.3	6.6
Imports of goods and services	70.0	-7.3	-13.8	-7.9	-1.7
Net exports[1]	-20.6	2.4	4.0	3.1	2.4
Other indicators (growth rates, unless specified):					
Potential GDP		-0.9	-1.1	-2.3	-1.1
Output gap[2]		-7.6	-12.6	-13.6	-13.1
Employment		-6.8	-8.0	-4.7	-1.5
Unemployment rate		17.7	24.2	27.2	27.1
GDP deflator		1.0	-0.8	-2.2	-1.9
Harmonised consumer price index		3.1	1.0	-0.7	-1.6
Underlying consumer prices		1.1	-0.3	-2.1	-1.7
Current account balance[3]		-9.9	-3.4	-0.4	1.3
General government financial balance[3]					
Based on EAP methodology[4, 5]		-9.6	-9.0	-4.1	-3.6
Based on ESA95 methodology[4, 5]		-9.6	-9.0	-2.4	-2.2
General government primary balance[3]					
Based on EAP methodology (EC definition)[4, 5, 6]		-2.4	-4.1	0.0	1.2
Based on ESA95 methodology (EC definition)[4, 5, 6]		-2.4	-4.0	1.7	2.5
Based on ESA95 methodology (OECD definition)[4, 5, 6]		-2.8	-4.5	1.3	2.2
Underlying government primary balance (OECD definition)[2, 6]		-0.5	3.4	4.6	5.3
General government gross debt[3] (Maastricht)		170.3	157.0	176.6	181.3
General government net debt[3]		142.5	102.5	123.0	129.5
Three-month money market rate, average		1.4	0.6	0.2	0.1
Ten-year government bond yield, average		15.7	22.5	9.8	8.4

1. Contributions to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of GDP.
4. The data for 2012 include the capital transfers of 2.8% of GDP made by the government as a result of bank resolution. Estimates for 2013 do not include capital transfers.
5. Estimates based on the Economic Adjustment Programme (EAP) methodology exclude Eurosystem bank profits on Greek government bonds remitted back to Greece. These profits are included in the estimates based on ESA95 methodology. Estimated repatriated profits for 2013 and 2014 are based on the Greek Draft Budget for 2014 (October 2013).
6. OECD definition of the government primary balance excludes net interest payments from the total balance while EC definition excludes gross interest payments.

Source: OECD, *Provisional Economic Outlook 94 database.*

Positive growth is projected only in the course of 2014, reflecting a slower decline of domestic demand and a pickup in exports. Although the budget deficit will continue to shrink, consumption and investment demand will be bolstered by a moderating pace of fiscal consolidation and the planned repayment of government arrears. Better access to credit, thanks also to additional support provided by the European Investment Bank and greater use of European Union structural funds, should strengthen the currently low investment. Export supply is likely to materialise slowly as structural reforms boost competitiveness further and the fall in relative prices of non-tradables to tradables

Figure 2. **Price competitiveness and exports**



1. The export performance measures the gain (increase) or loss (decrease) in export market share.
2. Deflated by the implicit price of the private consumption expenditure.
3. As measured by the harmonised consumer price index.

Source: Eurostat and OECD, *OECD Economic Outlook database.*

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progressively reorients resources towards the export sector. However, in a context of high unemployment with a large output gap, substantial deflation may well persist, maintaining nominal GDP growth in negative territory.

The outlook remains subject to a number of significant downside risks related to developments in the global economy and the prospects for achieving needed domestic adjustment to stabilise activity. Thanks in part to action by the ECB, global financial markets have become calmer, though this could reverse with potentially serious repercussions for Greece. Weakness in several emerging markets, uncertainty in the US recovery related to tapering by the Federal Reserve and the US budget outlook, and slower-than-expected progress towards the EU banking union could add to the risks. The implementation of indispensable structural reforms may be jeopardised by the resistance of vested interests, social strains and weak administrative capacity, and those reforms may not produce results fast enough to increase exports. Tight credit conditions still pose a risk to business expansion and exports. On the other hand, if the observed sharp improvement in cost competitiveness translates into export prices, exports may prove stronger than projected. Confidence may also strengthen further if new investment projects, such as the recently announced Trans-Adriatic gas pipeline, materialise and the economy could again surprise on the upside.

Fiscal policy will remain tight with limited room for manoeuvre

Between 2010 and 2012, the total and primary government deficits fell by more than 9 percentage points of GDP. Despite weaker-than-expected growth (Table 2), the government outperformed its deficit target by around ¾ per cent of GDP in 2012, abstracting from one-off capital transfers of 2.8% of GDP for bank resolution. In structural terms, the adjustment is estimated by the OECD at nearly 14 percentage points of GDP between 2009 and 2012 (Figure 3), which is 9 percentage points more than had been envisaged in the initial May 2010 adjustment programme. In the 2014 draft budget, the general government primary surplus for 2013 is estimated at EUR 344 million or 0.2% of GDP according to the methodology of the Economic Adjustment Programme (or 1.9% of GDP if central banks' capital transfers are included, in line with ESA95 methodology).

Table 2. **Official GDP projections and outcomes for Greece**[1]

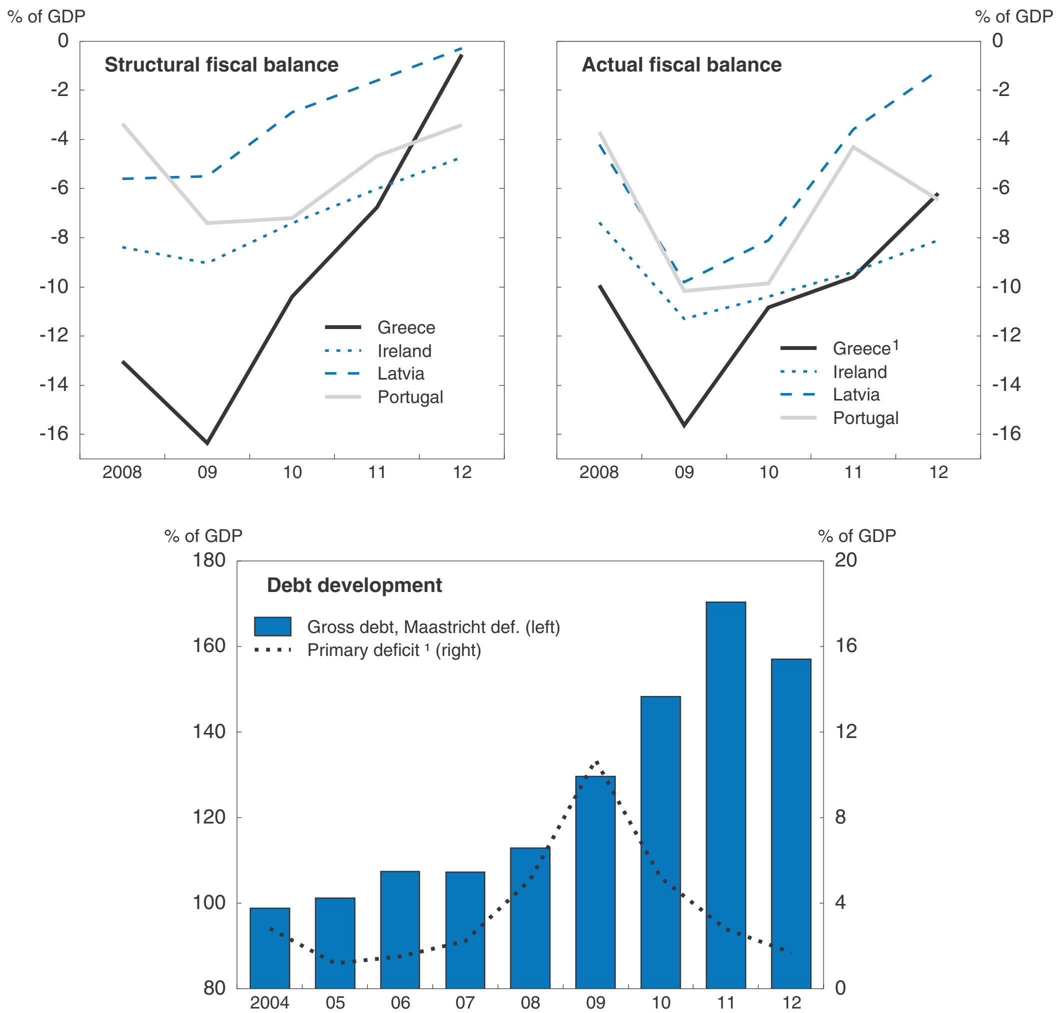
	Real GDP		Nominal GDP	
	Official projections	Outcomes	Official projections	Outcomes
2010	-4.0	-4.9	-2.8	-3.9
2011	-3.0	-7.1	-1.5	-6.1
2012	-3.0	-6.4	-2.8	-7.2
2013	-4.2	-3.5[2]	-5.4	-5.9[2]
2014	0.6	-0.4[2]	0.2	-2.3[2]

1. For 2010 and 2014, the May and June IMF projections, as released in their quarterly report on Greece are used. For 2011, 2012 and 2013, the December IMF projections released in these quarterly reports are used.
2. OECD projections.

Source: OECD, *OECD Economic Outlook database 94;* Consensus forecast; IMF programme quarterly report on Greece.

Apart from being larger than initially envisaged, this consolidation has had a larger impact on activity than had initially been estimated even though other factors, most notably the surge in political uncertainty and fears of an exit from the euro area also contributed to the lower-than-previously-forecast growth. Until the end of 2012, tax revenues have fallen persistently below expectations and reforms have proven difficult to implement, resulting in major slippage in areas such as health. This has required greater spending cuts to meet targets, depressing domestic demand. The general government had also built up sizable payments and to a lesser extend tax-refund arrears, which stood at 4.6% of GDP at end-2012. This reduced private sector liquidity in a context of very tight credit conditions. However, since the beginning of 2013, visible improvements have been made in tax revenue collection, providing fiscal stability and the prospect of primary surplus for 2013. Since the beginning of 2013, and in contrast to previous years, tax revenue

Figure 3. **Fiscal and debt developments**



1. Data for Greece do not include the one-off capital transfers of 2.8% of GDP made by the general government in 2012 through the Hellenic Financial Stability Fund, as a result of banks' resolution. Data for Ireland do not include the capital transfers made by the general government for banks' recapitalisation, which amount to 2.5% of GDP in 2009, 20.2% in 2010 and 3.6% in 2011.

Source: Eurostat and OECD, *OECD Economic Outlook database.*

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has been growing in line with the targets agreed with the Troika. There has also been a substantial increase in the number of full-scope audits and in the assessed revenues of large tax payers.

The November 2012 Eurogroup agreement on a slower pace of fiscal retrenchment put off targets from 2014 to 2016, thereby reducing the fiscal drag on domestic demand. The revised programme cut the target for the primary fiscal deficit by about 1½ percentage points of GDP per year from 2013 onwards, to reach a primary surplus of 4½ per cent of GDP in 2016 and a total deficit of ¾ per cent of GDP. Steps have also been taken to eliminate all arrears by the end of 2013 and to further improve expenditure transparency and controls.

For 2013-14, fiscal policy continues to deliver strong adjustment, which remains necessary against the background of a very high public debt, and to improve the prospects for a return to capital markets. Indeed, the total, frontloaded, consolidation for 2013 and 2014 of about 7¼ per cent of GDP is ambitious but feasible. Expenditure cuts account for nearly three-quarters of the total adjustment (Table 3). Easy-to-implement measures, such as changes in parameters for calculating pensions and salaries, were favoured for reducing the risks of fiscal slippage (EC, 2012). The authorities also decided to press ahead with various taxation changes, including a welcome income tax reform and a new unified real estate taxation.

Table 3. **Planned fiscal adjustment for 2013-14**

In per cent of GDP

	2013	2014	Total
Expenditure measures	**4.0**	**1.3**	**5.3**
Of which:			
Pensions	2.6	0.2	2.8
Wage bill	0.6	0.1	0.8
Health spending	0.2	0.3	0.6
Social benefits	0.0	0.0	0.0
Education	0.0	0.0	0.1
Defence	0.2	0.1	0.2
Local governments	0.0	0.1	0.1
Rationalisation of state-owned enterprises	0.1	0.1	0.2
Public investment	0.1	0.1	0.2
Public administration restructuring	0.1	0.1	0.3
Revenue measures	**1.2**	**0.8**	**2.0**
Of which:			
Direct taxes	0.3	0.7	1.0
Indirect taxes and sales	0.6	0.1	0.7
Social security contributions	0.3	0.0	0.3
Total	**5.2**	**2.1**	**7.3**

Source: Greek Ministry of Finance.

To enforce budgetary objectives, quarterly spending ceilings were set for all ministries, which are to suffer reductions in appropriations if targets are not met. However, while budget execution was well within target in the first ten months of the year, reductions in arrears were behind schedule. These arrears fell by EUR 2.2 billion (1.2% of GDP) between December 2012 and September 2013 instead of a target of EUR 6.5 billion over the period, although the pace has recently accelerated. The privatisation target of EUR 2.6 billion (1.4% of GDP) for 2013 has been revised down to EUR 1.6 billion (0.9% of GDP).

These developments could increase the financing gap of the current adjustment programme between 2014 and 2016, which is currently estimated to be around EUR 10 billion (IMF, 2013a). This gap would widen further if the programme assumption of 0.6% real GDP growth and 0.2% nominal growth in 2014 proves too optimistic. In such a case, the automatic stabilisers should be allowed to play, as introducing further measures to offset the budgetary effects of weaker growth risks aggravating again the depression and exacerbating the already dire social conditions.

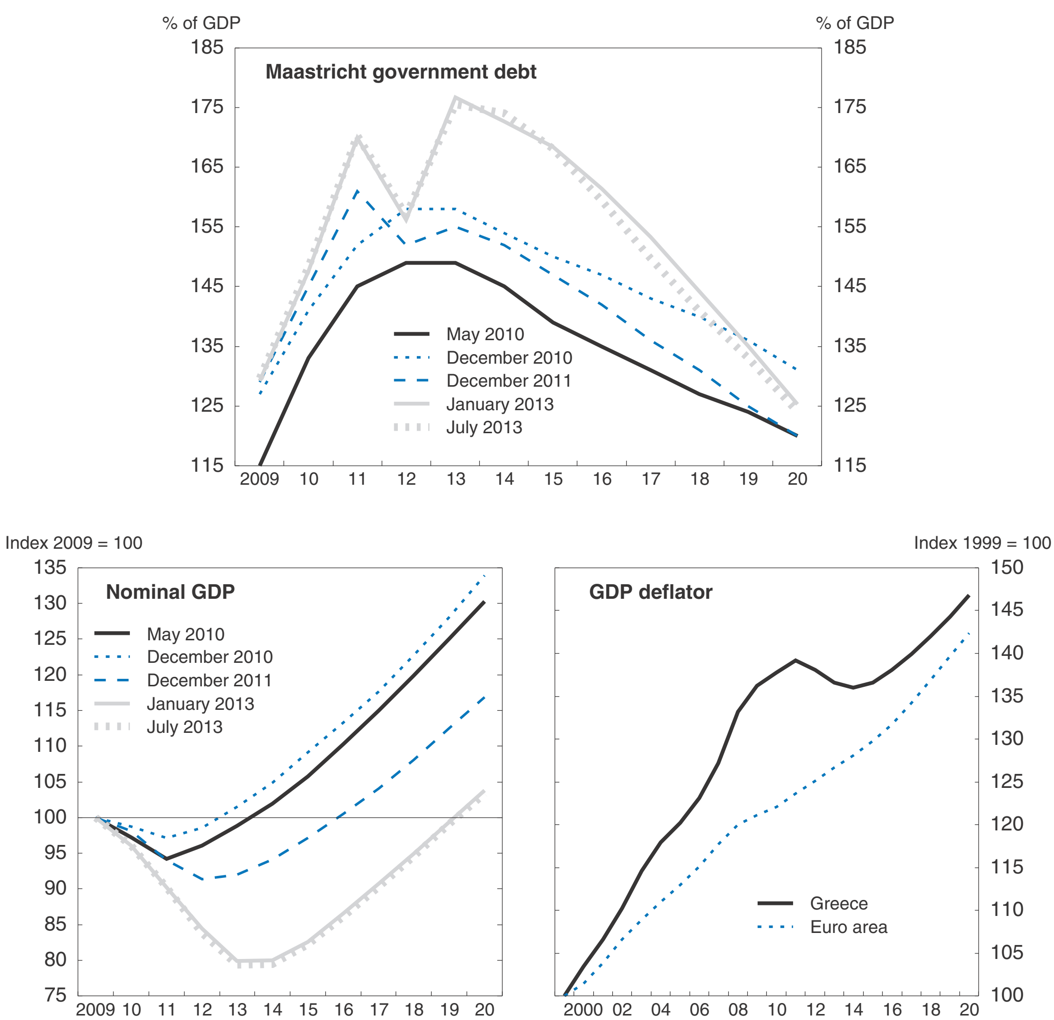
Public debt sustainability

The most recent debt sustainability analysis (DSA), published by the European Commission and the IMF in July 2013, projects that the debt-to-GDP ratio will peak at 176%

in 2013, and then fall steadily to 124% in 2020 (Figure 4). This peak is much higher than had been envisaged in May 2010, essentially because growth projections made at that time proved over-optimistic. As suggested by the official projections, growth could be positive in 2014 and strengthen further in the following years as the benefits of the supply-side reforms materialise. In such a scenario, the debt-to-GDP ratio would reach 124% by 2020 (taking into account measures which could be adopted as agreed by the Eurogroup). This is still high, but debt would be on a clear declining trend due to the large primary budget surplus which is assumed to be maintained.

This scenario is subject to a number of downside and upside risks. Major upside risks include a stronger effect of structural reforms on real GDP growth, thus lowering the debt burden faster than expected. For example, recent economic data suggest that in 2013 the economy is likely to contract by less than initially anticipated. In addition, a more rapid return of confidence and foreign capital, attracted by low assets prices, and privatisation, could support domestic demand through both investment and consumption.

Figure 4. **Official projections of Maastricht debt and nominal GDP**



Source: OECD, *OECD Economic Outlook 93 database*; IMF, *Quarterly Report on Greece*; IMF (2013), "Greece: Fourth Review Under the Extended Arrangement Under the Extended Fund Facility", *Country Report*, No. 13/241, July.

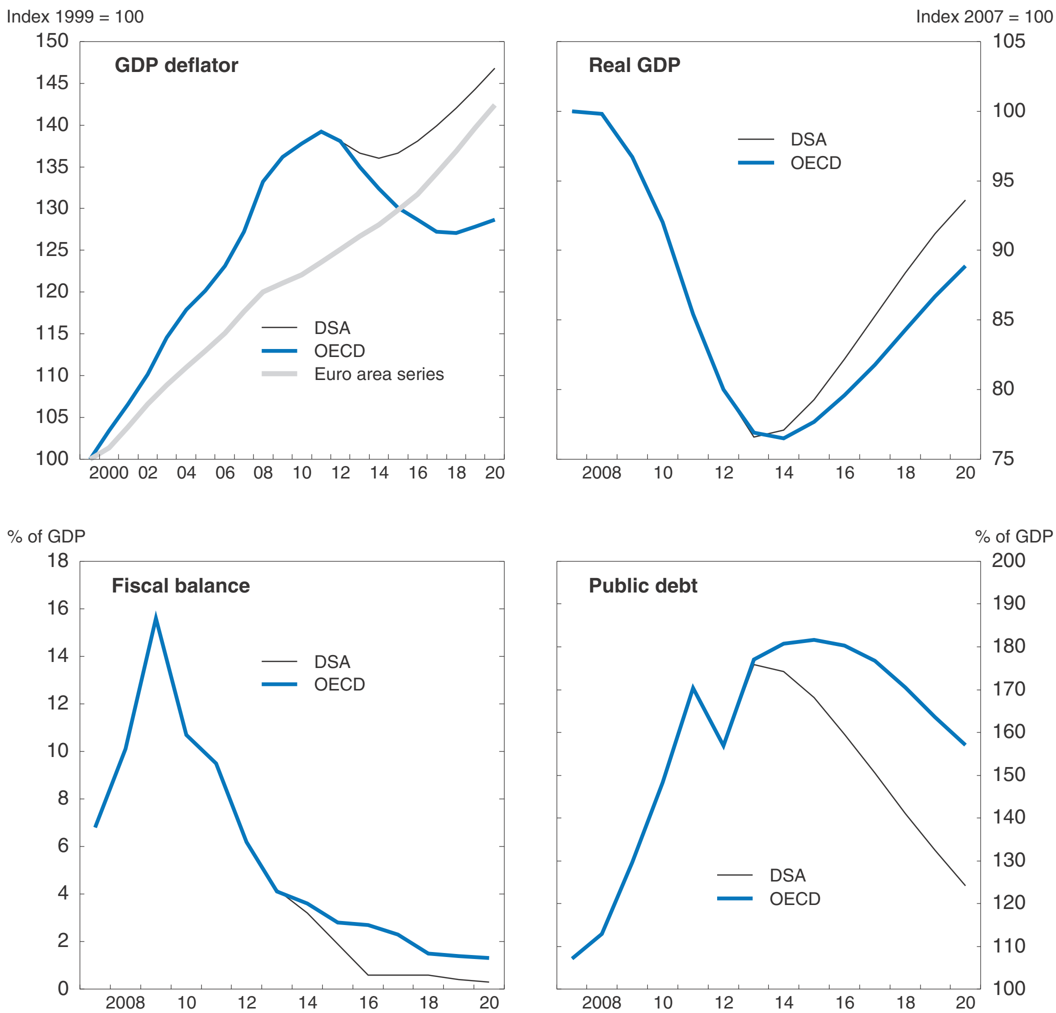
StatLink http://dx.doi.org/10.1787/888932957612

However, the downside risks are significant. As noted by the IMF (IMF, 2013a), "...*the programmed path entails still very high debt well into the next decade, leaving Greece accident prone for an extended period.", "If investors are not persuaded that the policy for dealing with the debt problem is credible, investment and growth will be unlikely to recover as programmed.", "Debt path is particularly vulnerable to growth and [budget] primary surplus shocks...*". A key parameter in this respect is nominal growth, which drives tax receipts and the denominator of the debt-to-GDP ratio. As described above, risks to real growth are still on the downside even if the programme is fully and rigorously implemented. Continuing high unemployment combined with greater flexibility in labour markets may put further pressures on nominal wages while product market liberalisation may lead to lower prices. As a result, deflation pressure may be stronger and last longer than expected.

Figure 5 shows an alternative DSA constructed by the OECD, which is less optimistic than the Troika scenario. It illustrates the effects of alternative assumptions regarding real GDP and inflation developments. This analysis includes a medium-term OECD growth projection, which is more pessimistic than in the July 2013 DSA and results in a level of real GDP that is about 6% lower in 2020. A less favourable than expected international environment and a slower pace of investment recovery, due to persistently tight credit conditions, cannot be ruled out. More importantly, this scenario also assumes that stronger price adjustment takes place as a result of high unemployment, large slack in the economy and more flexible labour and product markets thanks to the progress of structural reforms. Although the potential amount of the resulting downward inflation pressures is subject to high uncertainty, it is assumed in this scenario that prices decline by about 12% more than projected in the July 2013 DSA between 2013 and 2020, implying a total improvement of the price-based real exchange rate by almost 20% over this period. This would correct the overvaluation of this real effective exchange rate as estimated by the OECD and would improve price competitiveness (Chapter 1). This scenario also assumes that automatic stabilisers operate partially and, as a result, the fiscal targets in the programme are not met over the 2015-17 period, with a 4¼ per cent primary surplus reached by 2018 only. Under these assumptions, the debt ratio continues to rise until 2015, and only falls to below 160% of (nominal) GDP by 2020, almost 35 percentage points more than in the July 2013 DSA (Table 4). About two thirds of this difference reflects the assumed larger deflation. Another way to illustrate this vulnerability of Greek debt sustainability in case of a stronger-than-expected deflation is to estimate what real GDP growth would have to be, to achieve the July 2013 DSA target debt of 124% of GDP, under the OECD assumptions. Real GDP would have to rise by 4.8 % a year between 2014 and 2020. Such a rapid and sustained pace of growth is very unlikely, even in the presence of a substantial output gap, given both the historical performance of the Greek economy and the weakening of its potential growth since the beginning of the crisis.

If negative inflation risks materialise, assistance from Greece's euro area partners may need to be considered, provided the programme has been fully implemented. In the 27 November 2012 the Eurogroup stated that "*Member states reiterated their commitment to provide adequate financial support throughout and beyond the programme, until Greece regains access to financial markets, so long as it complies with its obligations. This includes considering further measures if necessary to achieve debt sustainability*" (Eurogroup, 2012). In practice a key condition for Greece to benefit from these further measures is to achieve a primary balance in 2013, which seems likely even though the final budget outcome will only be officially known around April 2014.

Figure 5. **Alternative long-term debt sustainability scenarios**[1]



1. Compared to the 2013 debt sustainability analysis (DSA), by 2020 the OECD scenario assumes that the price level has fallen by 12% more, real GDP is 6% lower, there is a slippage in the fiscal balance relative to target as from 2014, amounting to about half the size of the automatic stabilisers.

Source: OECD calculations and IMF (2013), "Greece: Fourth Review Under the Extended Arrangement Under the Extended Fund Facility", *Country Report*, No. 13/241, July, *www.imf.org/external/pubs/ft/scr/2013/cr13241.pdf*.

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Under the OECD scenario of full implementation of reforms, but stronger deflation, assistance would need to be large enough to reduce uncertainties and revive demand, although sustainability as such is difficult to determine precisely. Beyond the reduction of the large debt overhang that such assistance would provide, it would also significantly reduce the need for further fiscal tightening, without widening the overall deficit much, and boost growth given the large fiscal multipliers, currently estimated at somewhat above 1 (Blanchard and Leigh, 2013).

The debt sustainability issue implied by the OECD scenario may, however, be overstated by the debt-to-GDP ratio indicator. Following the debt restructuring which occurred in 2012, Greek debt is now mostly in official creditors' hands (Table 5). The average maturity of the Greek debt is 16.4 years, far longer than that of any other European country. Moreover, the average interest rate on the Greek debt is expected to remain

Table 4. **Debt sustainability analysis: scenario assumptions and outcomes**[1]

2014-20 average

	IMF DSA July 2013	OECD scenario 1[2]
Real GDP growth	2.9	2.1
Inflation rate (GDP deflator)	1.0	-0.6
Nominal GDP growth	4.0	1.5
Privatisation proceeds (% of GDP)	1.4	1.4
Average nominal interest rate on public debt (%)	3.1	3.1
Primary budget balance (% of GDP)	3.8	3.2
Total budget balance (% of GDP)	-1.1	-2.2
Primary budget balance (% of GDP) (end of period)	4.3	4.3
Maastricht debt (% of GDP) (end of period)	124	157

1. See the footnote 1 in Figure 5 for additional information concerning the assumptions retained in these scenarios.
2. To achieve the July 2013 DSA target debt of 124% of GDP, under the OECD assumptions, real GDP would have to rise by almost 5% a year between 2014 and 2020.

Source: OECD estimates.

around at 2½ per cent in 2013-15, which is almost 1 percentage point lower than the EU average and it should stay at a relatively low level beyond this period. On this basis, Greece's debt thus appears to be more sustainable than what is suggested by the debt-to-GDP ratio indicator alone. If the November 2012 decision of the Eurogroup to provide Greece with further measures and assistance, if necessary, when a primary surplus is achieved and all other components of the programme conditionality are fully met, translates into another extension of maturities and grace periods, as well lower interest rates on existing loans, it will ease further the corresponding debt financing needs. Furthermore, such an action would provide additional "breathing space" to the economy to grow faster in the coming years and, hence, improve the debt-to-GDP ratio.

It should be stressed that any kind of assistance should not be a substitute for structural reforms, and indeed such reforms would be needed for the Greek economy to contain the risks to debt sustainability and take full advantage of the space for growth created by this breathing space. Therefore, structural reforms need to be fully implemented and extended, in particular in the areas of public administration and product markets, including privatisations (as discussed below).

Table 5. **Greek government debt decomposition**

Estimates at mid-2013

	EUR billion	% of total	% of GDP
Official creditors	270	84	148
IMF	31	10	17
Euro member states	205	64	112
European Central Bank	35	11	19
Private sector	50	16	27
T-bills	16	5	9
Bonds	34	11	19
Greek pension funds	8	3	4
Other	26	8	14
Total	320	100	175

Source: OECD estimates based on IMF, Bloomberg, Citi research and Greek Ministry of Finance.

Fiscal reforms to strengthen medium-term growth

Improving tax collection and reducing evasion

Tax evasion is notoriously high, and shows little sign of diminishing. Underreporting of income by the self-employed is estimated to cost the state around 1¾ per cent of GDP in foregone revenues every year (Artavanis et al., 2012). The collection of employers' social contributions and the VAT seems to have become less efficient during the crisis, perhaps reflecting higher taxes in the context of declining demand. As the Bank of Greece (BoG, 2013) has shown, a 1% decline in real GDP lowers VAT revenue efficiency by about 0.4 percentage points. VAT revenue efficiency has thus decreased substantially in recent years due to the recession. According to the same Bank of Greece report, the decline in economic activity impacts VAT revenue efficiency both directly and indirectly, through the shifts towards necessity goods (that are usually taxed at a lower VAT rate) and the increase in tax evasion. If tax collection efficiency had been similar to the OECD average, at existing VAT and employers' social contribution rates, the level of Greek government revenues in 2011 could have been about 6 percentage points of GDP higher, according to OECD estimates.

Since end-2012, the authorities have intensified efforts and adopted welcome measures to fight tax evasion. The tax system, including personal income taxes, has been simplified, and a fiscally neutral property tax reform, put in place in 2013, will continue in 2014 with a broader tax base and a lower rate achieved by unifying the multiple property taxes. Key changes have been adopted to enhance the efficiency of tax inspection and tax debt collection, increase the autonomy of the tax administration, modernise working techniques, and expand risk-based audits (EC, 2013a).

Given the still widespread tax evasion more needs to be done. Better cross-checking on information on taxpayers' bank accounts, social contributions and wealth would narrow opportunities for evasion. Improving further the judicial system and speeding up court proceedings would strengthen enforcement (Vasardani, 2011; OECD, 2013a) and the on-going simplification of the code of civil procedure is therefore welcome. Greater use of specialised out-of-court mediation systems hold the promise of speeding up resolution of tax cases. Websites and online facilities would help lawyers to follow up cases more easily and accelerate judicial procedures (OECD, 2013a). Amnesties, which have been used in the past in an attempt to boost revenues, only encourage further evasion and should be definitively renounced.

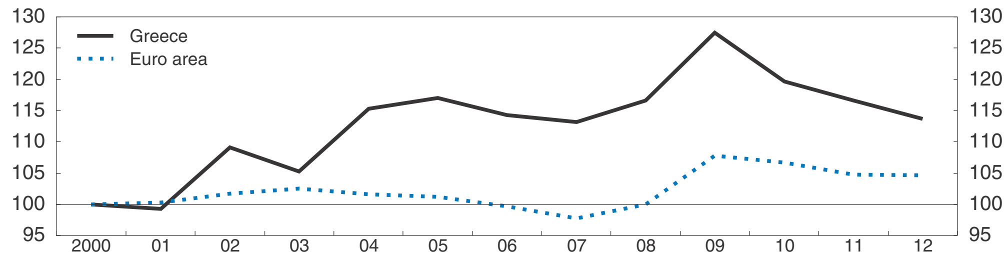
In-depth reform of the public administration

Reforms to reduce waste, boost efficiency and improve the allocation of resources within the public sector can somewhat mitigate the growth impact of consolidation. But a more efficient public sector is especially important for longer term growth as better quality public services create trust with public servants, increase willingness to pay taxes, improve competitiveness, create better conditions for business environment and attract more foreign investment. A more efficient civil service is also essential to implement the structural reforms that are the key to restoring growth.

Reforms have been put in place to arrest and reduce the growth in the public-sector wage bill. A significant part of the slippage recorded in this domain between 2000 and 2009 compared to the euro area average has been corrected (Figure 6). A single salary grid was introduced and then extended to the whole civil service in November 2012, which rationalised the pay structure and reduced average pay levels by nearly 20%. The

Figure 6. **Government wage expenditure**

As a percentage of GDP, index 2000 = 100



Source: Eurostat.

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authorities are likely to meet their employment reduction objective of 150 000 between 2011 and 2015 by replacing only one in five retirees. To address inadequate staff allocation, a new "mobility scheme" has been developed. By end-2013, 25 000 persons are to be transferred to this programme, which lasts for eight months with reduced pay. It allows for retraining with intention to find a placement, without guarantee, in another public or private sector job. Moreover, 15 000 employees will be laid off by the end of 2014 to make room for new qualified staff.

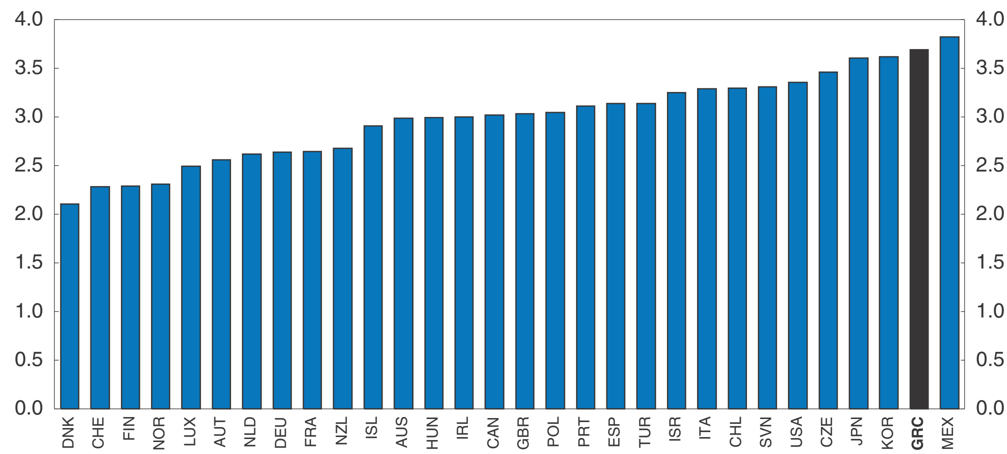
Beyond the welcome measures, the modernisation and effective functioning of public administration could be enhanced by a number of additional actions, as suggested in the *2011 OECD Survey* (OECD, 2011a). For instance, it would help to further spread a culture of evaluation of staff performance based on clear individual objectives, to end automatic promotions linked to seniority, to sanction unsatisfactory behaviour and reward efforts. This would stimulate the efficiency and enhance the quality of public services. Significant efficiency gains could also be achieved through further development of e-government to boost public sector productivity and facilitate private citizen interaction with government department and agencies. The government actually plans to take steps in several of these domains.

There is a glaring contrast between the extensive means deployed for overseeing budget implementation and the modest efforts made to date to check that structural reforms are properly carried out. Better data collection and dissemination are still required to verify and monitor concrete reform outcomes, as stressed in the previous OECD *Survey* (OECD, 2011a). If necessary, this task could be entrusted to an independent agency.

A General Secretariat reporting directly to the Prime Minister has been created to co-ordinate the work of the ministries and to supervise implementation of reforms. In 2012, the Parliament introduced the OECD Principles of Better Regulation in the legislation, with the view to cut the heavy administrative costs associated with the Greek approach to regulation. More recently, with the OECD support, the authorities have embarked on a project to reduce by 25% the administrative costs entailed by existing regulations in 13 important sectors of the economy, including energy, public procurement, company law, VAT and environment. However, providing more adequate financial and regulatory means to the office responsible for applying OECD Better Regulation Principles would be needed. More active government participation in the assessment and streamlining of the legislation in the 13 sectors of the economy could also be a useful platform for a more comprehensive implementation of the 2012 law on Better Regulation. More generally, increased ownership of structural reforms by the Greek authorities would be welcome.

A welcome draft law is to be submitted to Parliament soon to address the serious problem of government corruption (Figure 7). However, beyond the indispensable fight against corruption, there is also a need for more transparency and accountability in the government sector. This is particularly important for the justice administration, the deficiencies of which seriously hamper on-going efforts against tax evasion and several other areas of key significance for economic efficiency, including the insolvency framework (see below). International comparisons show that reliable and detailed statistics on the work and outcomes of justice administration improve efficiency of its services, and thus proper functioning of the rule of law (Palumbo et al., 2013).

Figure 7. **International perception of corruption**[1]



1. Average perception of corruption across six public institutions. 1 = not at all corrupt, 5 = extremely corrupt.
Source: Transparency International, *Global Corruption Barometer 2010/11* (*http://gcb.transparency.org/gcb201011/*).
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Box 1. **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.
- Implement fiscal consolidation measures as planned. If growth is weaker than expected, let the automatic stabilisers operate.
- 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.
- 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.
- 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.
- 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.

Easing financial conditions more rapidly

Greek banks have paid a heavy toll during the crisis. Markets have linked them to Greek public finances, Private Sector Involvement (PSI) to restructure the public debt imposed heavy losses (estimated at EUR 37.7 billion, or 20% of GDP), and the deep recession has greatly weakened their assets and eroded their capital. Net interest income has decreased sharply as a result of increasing NPLs, rising funding costs in a context of deposit outflows, closure of the interbank market and the subsequent dependence on costly Emergency Liquidity Assistance (ELA) to bridge the funding gap (Figure 8).

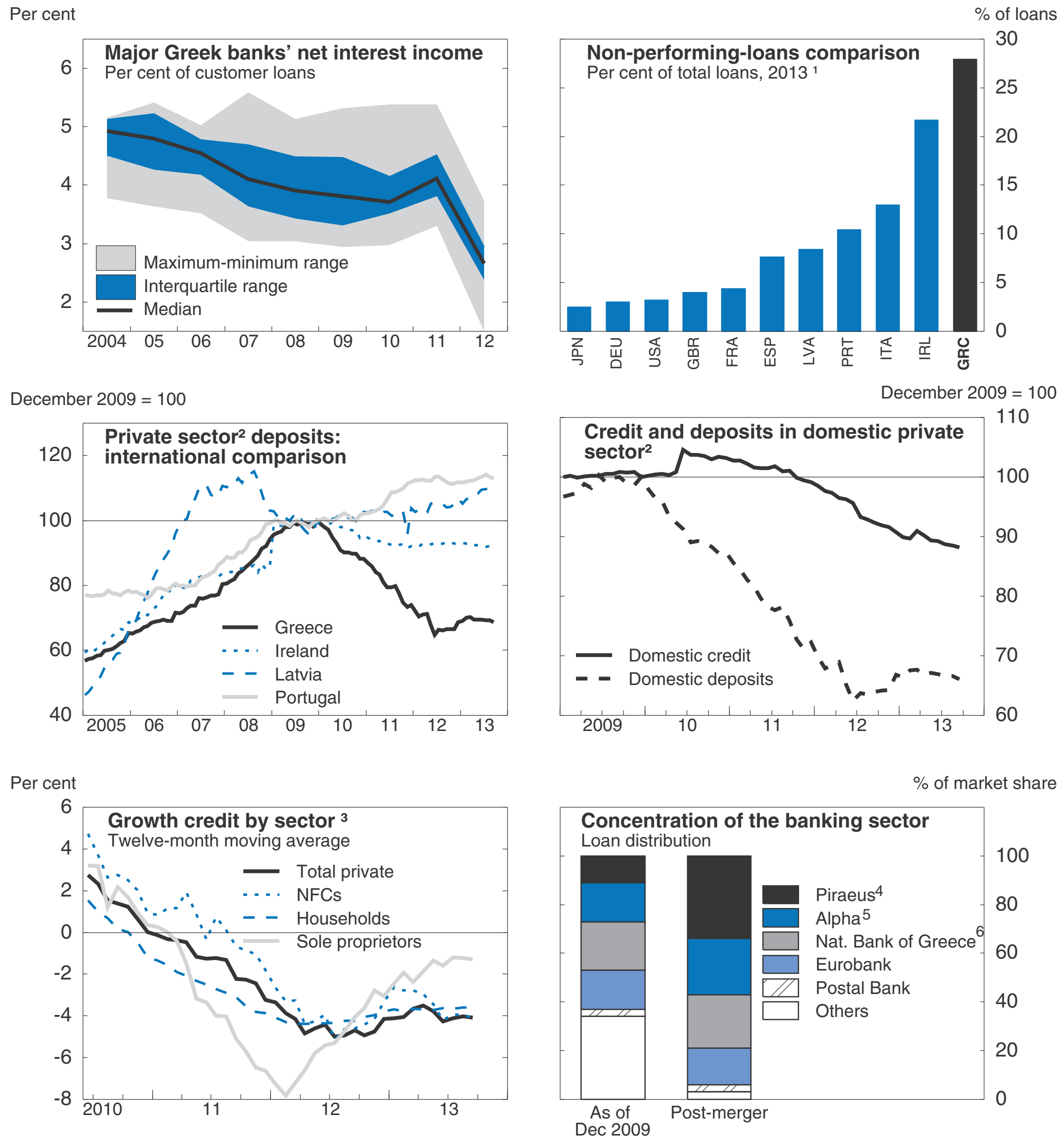
Credit contraction has been severe, and credit was still falling in 2013, although the pace of decline seems to be slowing somewhat (Figure 8). Credit contraction has partly reflected lower demand for loans because of the depth of the recession, but also bank deleveraging and supply restrictions. Banks curtail new lending to economise on scarce liquidity and capital. The resulting funding constraint has been particularly harmful for the productive sector because it is dominated by SMEs, for which bank loans are the most attractive and widely available source of finance. Bank deposits have only partially recovered after the large capital outflows which took place between 2010 and mid-2012, despite relatively high deposit interest rates.

The authorities have preserved the stability of the banking sector, fully protecting depositors and avoiding bank defaults. They have also adopted specific provisions to improve SMEs' access to credit, amounting to about EUR 2 billion, thanks to the development of new financing facilities sponsored by the European Investment Bank and the European Investment Fund. The recapitalisation and resolution plan, following the implementation of the PSI in March 2012, aimed to restore the capital base of the four core (systemic) banks and resolve all other non-core banks unable to recapitalise themselves through the private capital market, with the large part of EUR 50 billion in debt securities that had been earmarked for this purpose in the economic adjustment programme. The process has been managed by the Hellenic Financial Stability Fund (HFSF), a temporary institution with a governance structure designed to ensure that banks are run on a commercial basis at an arm's length from the state even after they have been taken over as part of recapitalisation. As this structure is key to the health of the banking system, the plan to reinforce HFSF governance and its independence *vis-à-vis* the political influences is welcome (EC, 2013b).

After the completion of this plan, one core bank is under HFSF control, but the other three have retained private management, even though more than 80% of their capital is owned by HFSF. Core banks, which have been able to raise at least 10% of the new shares issued for the recapitalisation, have been allowed to avoid a full HFSF control. To attract private investors, new shares issued by the core banks have received free warrants to buy all HFSF's shares at a predetermined price at regular points in time over the next 4½ years. This provides a way for the HFSF to exit from core banks' capital. A resolution framework has been applied to six non-core banks, with their healthy units being absorbed by the core banks, and to three co-operative banks with their deposits being transferred to a core bank. Overall, the restructuring process has been smooth, all depositors were protected, and shareholders suffered substantial losses.

The HFSF exit strategy, with the "free" equity-linked warrants granted to private shareholders, helped raise the part of capital from the private sector. However, it sets a cap for the upside potential for privatisation proceeds, which may prove costly to the public

Figure 8. **Financial market indicators**



1. Or latest available data.
2. Private sector includes non-financial corporations and households.
3. Growth rates are derived from the differences in outstanding amounts corrected for loan write-offs, exchange rate valuations and reclassifications
4. Also includes Hellenic Bank, Bank of Cyprus, Geniki Bank, CPB, HB and Millennium after merger.
5. Includes Emporiki Bank after merger.
6. Includes 1FBBank after merger.

Source: Bank of Greece; Datastream; ECB, *Money, Banking and Financial Markets database*; IMF, *Financial Soundness Indicators database*; OECD, *OECD Economic Outlook database;* Published accounts (pro forma) and OECD calculations.

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sector. This strategy keeps the public debt low, but if the banks recover as expected, early private investors will make substantial capital gains given the low purchase price of their shares and free warrants. Incentives for an early exercise of warrants are of course desirable from a macroeconomic point of view, since the sooner banks recover, the better for the growth prospects of the economy. However, if the core bank shares do not rebound and remain in HFSF's hands until the end of 2017, an alternative HFSF exit strategy could be considered. It would simply be to sell shares over time as the banks recover. This may increase privatisation proceeds for the government compared to a warrant-based plan.

The recapitalisation plan and enhanced political stability have boosted depositors' confidence and market sentiment. Despite the deepening recession, bank deposits rose by EUR 13.5 billion between June 2012 and March 2013 before broadly stabilising up to August 2013. This has partly offset the EUR 87 billion fall between end-2009 and mid-2012. The Greek banks' dependence on expensive ELA financing has also been drastically reduced in 2013. While increased banking sector concentration upon resolution and acquisitions could improve the stability of the sector and increase its efficiency by reducing banks' branches, it will also make close monitoring of competition more important.

Notwithstanding these measures, and despite heavy provisioning and rapid increases in non-performing loans (NPLs) (Figure 1), banks are not writing off significant amounts of bad debt. As a result, banks may be monitoring and managing relationships with companies with low probability of survival and thereby slowing the necessary reallocation of resources toward exports and higher productivity sectors. Compared to the pre-crisis period, the sectoral allocation of credits has not substantially shifted towards the export-oriented sectors since 2010 (Chapter 1).

Bolder debt-workout by the core banks and amendments in the legal framework to help improve the payment culture are needed to ease the persistent credit supply restrictions. Although banks are best placed to deal with their customers, they face difficulties when the deterioration in loan quality becomes systemic and the value of collateral falls sharply (IMF, 2013b). Establishing informal and more flexible debt-restructuring procedures, possibly under the auspices of the Bank of Greece, could accelerate debt-workouts, especially when financially distressed companies face a large number of claimholders with divergent interests. Some initial steps have been taken in this direction. Following their recapitalisation, core banks will need to develop key performance indicators (KPIs) and prepare a strategy to deal with troubled assets, which will encourage more efficient management of NPLs (BoG, 2013). Moreover, a stress test exercise is underway and is expected to be completed by end-2013.

Regarding NPL management, the trend in Greece currently appears to be for each core bank to establish its own "bad bank". Another approach would be for the government to establish a "bad bank" to assume, restructure and liquidate troubled assets in the core banks, as was done for the resolved non-core banks. This approach, which should accelerate debt workouts and thereby improve the supply of credit, has been used in a number of countries facing banking crises, and would help to address issues of fairness, necessity and transparency (Jonung, 2009). The value of bad assets transferred to the bad bank should be carefully evaluated to reduce the risk of overburdening the public accounts when they are ultimately sold. Inevitably, however, this approach will translate into a higher public debt and possibly higher government deficits. Moreover, given that a substantial fraction of delinquent credits represent loans to SMEs, characterised by great heterogeneity, it might not be the most suitable approach in the Greek case.

The insolvency framework has been inadequate. Over-indebted households have been allowed to petition the court for debt restructuring, which most often gave them the right for a break on payments (both the principal and interest) until a court decision was taken. This could take 4 or 5 years because of the backlog of cases (EC, 2013b). Measures have recently been taken to amend this deficient legislation, which weakened the debt-servicing culture and increased moral hazard, which in turn reduced the supply of credit. Reforms were adopted at end-June 2013 to address this deficiency, in part by tightening the eligibility criteria for accessing the insolvency framework. In addition, the implementation of a "facilitation programme" at end-June 2013, as in Portugal and Spain, to provide households under financial stress with debt relief proportionate to their current income for a period of up to 4 years is welcome. The authorities recognise the need to reform the insolvency framework for the corporate sector and the self-employed, in part to accelerate the restructuring of NPLs (especially regarding SMEs) (IMF, 2013a).

Box 2. **Recommendations for financial policy**

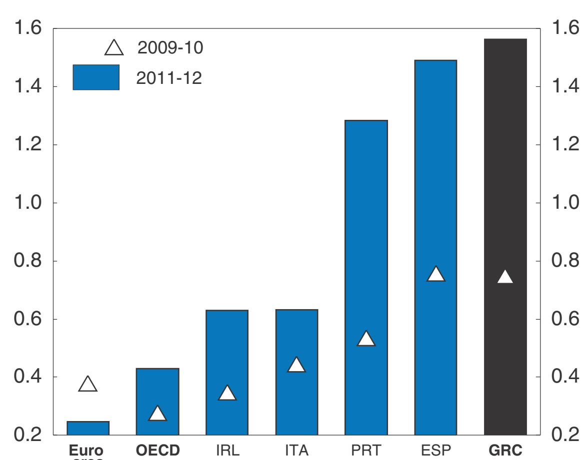
- Enhance management of troubled assets and maximise recoveries in order to increase banks' ability to grant credit in the medium term.
- Proceed with the planned evaluation of the insolvency framework for the business sector, with a view to lifting the obstacles that hinder effective debt resolution of firms.

Market reforms to foster growth

Returning rapidly to positive and sustained growth is essential to the success of the reform programme and its social sustainability. Impressive progress has been achieved in reforming labour and product markets since the beginning of the crisis, albeit from a low starting point. Since 2009-10, Greece has the highest OECD rate of responsiveness to structural reforms recommended in the *Going for Growth* publication (Figure 9). A crucial factor in Greece's growth strategy is the successful implementation of the much needed

Figure 9. **Responsiveness to OECD structural reforms recommended in *Going for Growth***

Adjusted for the difficulty of undertaking reform[1]



1. The adjusted responsiveness rates are calculated as the share of recommendations in *Going for Growth* for which "significant" action has been taken, where each recommendation is weighted by the inverse of average responsiveness to priorities in this area in non-crisis circumstances, in order to reflect the fact that some areas of reform are more difficult than others. The euro area and OECD rates are calculated as an unweighted average; the OECD rate is not adjusted.

Source: OECD (2013), *Economic Policy Reforms 2013: Going for Growth*, OECD Publishing, Paris.

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product market reforms. Full implementation of measures already legislated and a number of additional initiatives would open the way for the expansion of more productive sectors, especially for exports. The resulting job creation would avoid loss of human capital, defuse social tensions and avoid a large rise in structural unemployment with a related decline in potential output.

In the initial stage of the crisis, labour costs failed to adjust despite the prior loss of international competitiveness and the sharp rise in unemployment. The authorities therefore stepped up the pace of labour market reform at end-2011 in four directions: *i)* decentralising the wage bargaining system; *ii)* softening employment protection (EPL); *iii)* reducing the minimum wage; and *iv)* increasing working time flexibility. These reforms are now changing labour market behaviour. Labour costs have fallen sharply since end-2011 and flexible working arrangements have become more common, with an increased share of part-time and intermittent employment (Figure 10). The softening of EPL has been more pronounced than in other OECD countries since 2008, except in Portugal, and is now close to the OECD average for permanent jobs. Although the labour market has continued to deteriorate as the economy has shrunk, the decline in employment has slowed since mid-2012.

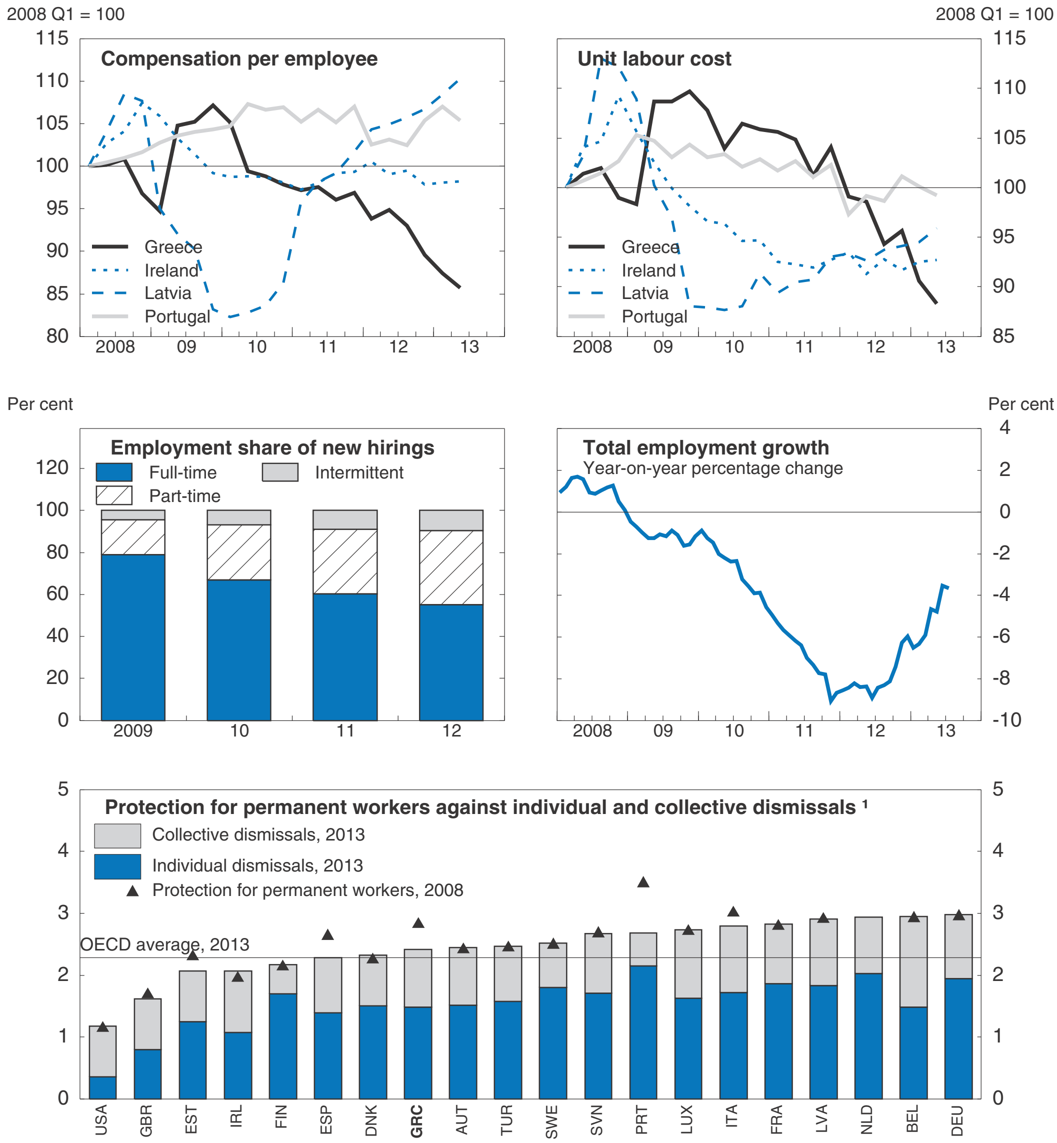
Product markets must work better to boost competitiveness and growth

Despite greater progress in liberalising product market regulations than in other OECD countries (OECD, 2013a), as of early 2013 such regulations were still among the most restrictive in the OECD (Figure 11). They appear to be a major factor in the sluggish price adjustment, as indicated by widening profit margins (Figure 12). More progress in improving the overall business climate and in resolving sector-specific roadblocks remains key in this regard. Despite progress, administrative burdens for creating start-ups were still high at end-2012 (Figure 13); licensing procedures, including land-zoning are complex and burdensome (OECD, 2011a); and the cost and the time involved in export procedures are excessive.

The full review of the licensing procedure for investment and business operations planned with the support of the World Bank is therefore a welcome initiative. The 2013-15 "Trade Facilitation Strategy and Roadmap" to create a national "single window for exports" with the support of international organisations is on track and important, especially for helping SMEs to turn more easily to foreign markets. This plan is set to be extended to import procedures, which are also tied up in red tape, and since imports are often intermediate products, this hinders growth and competitiveness. Both imports and exports are critical for integrating Greece more thoroughly into global value chains and for attracting badly needed foreign investment (OECD, 2013b). The authorities are now completing an evaluation of regulations using the OECD competition toolkit. Once this is done, they should move to strengthen competition and lift barriers to entry in the retail, manufacturing, building materials and tourism industries.

In professional services, which represent a third of private employment in Greece, around 75% of nearly 350 regulated professions had been opened to competition by the beginning of 2013, in line with the Hellenic Competition Commission recommendations. The replacement of administrative licenses by notification procedures for the majority of professions has simplified business creation in many sectors and is expected to increase competition. However, much work remains to be done on implementation, for certain professions. The forthcoming assessment of the measures adopted in the 20 most

Figure 10. **Labour market**



1. The figure shows the contribution of employment protection of permanent workers against individual dismissal (EPR) and additional provisions for collective dismissal (EPC) to the employment protection for permanent workers against individual and collective dismissals (EPRC). The height of the bar represents the value of the EPRC indicator.

Source: Eurostat; ELSTAT; Greek Labour Inspectorate (SEPE); OECD, *Employment Protection database*, 2013 update and *OECD Economic Outlook database*.

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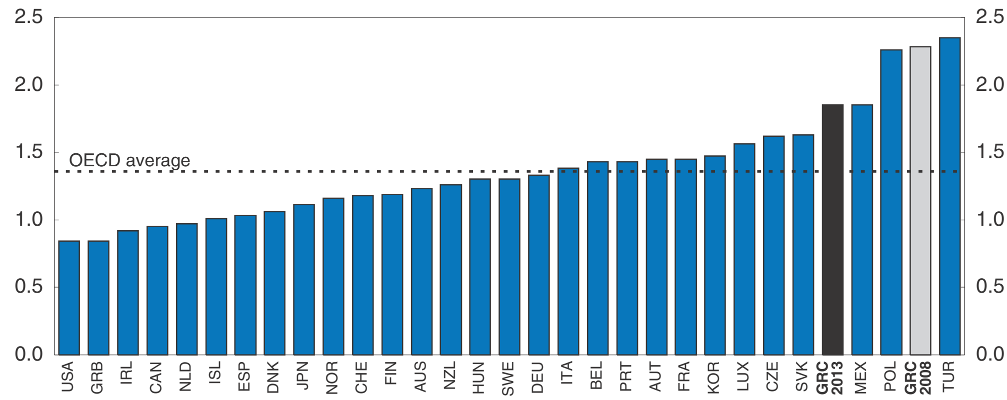
important regulated professions is welcome, and should be used to develop tools and indicators for an on-going assessment of reform outcomes.

Reforms have been put in place to enhance the weak transportation sector, but the results have been mixed. Restrictions to enter road haulage were lifted, but very few new operators entered because the economy is so weak, and prices did not fall much. They are more 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 of not just Greece but for the

Figure 11. **Overall product market regulation**[1]

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



1. The reference year is 2008 for all countries. The PMR indicator for Greece for 2013 is preliminary and for purposes of comparability is calculated on the basis of the 2008 methodology. For more details, see *Source*.

Source: OECD (2014), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economic Policy Papers*, forthcoming.

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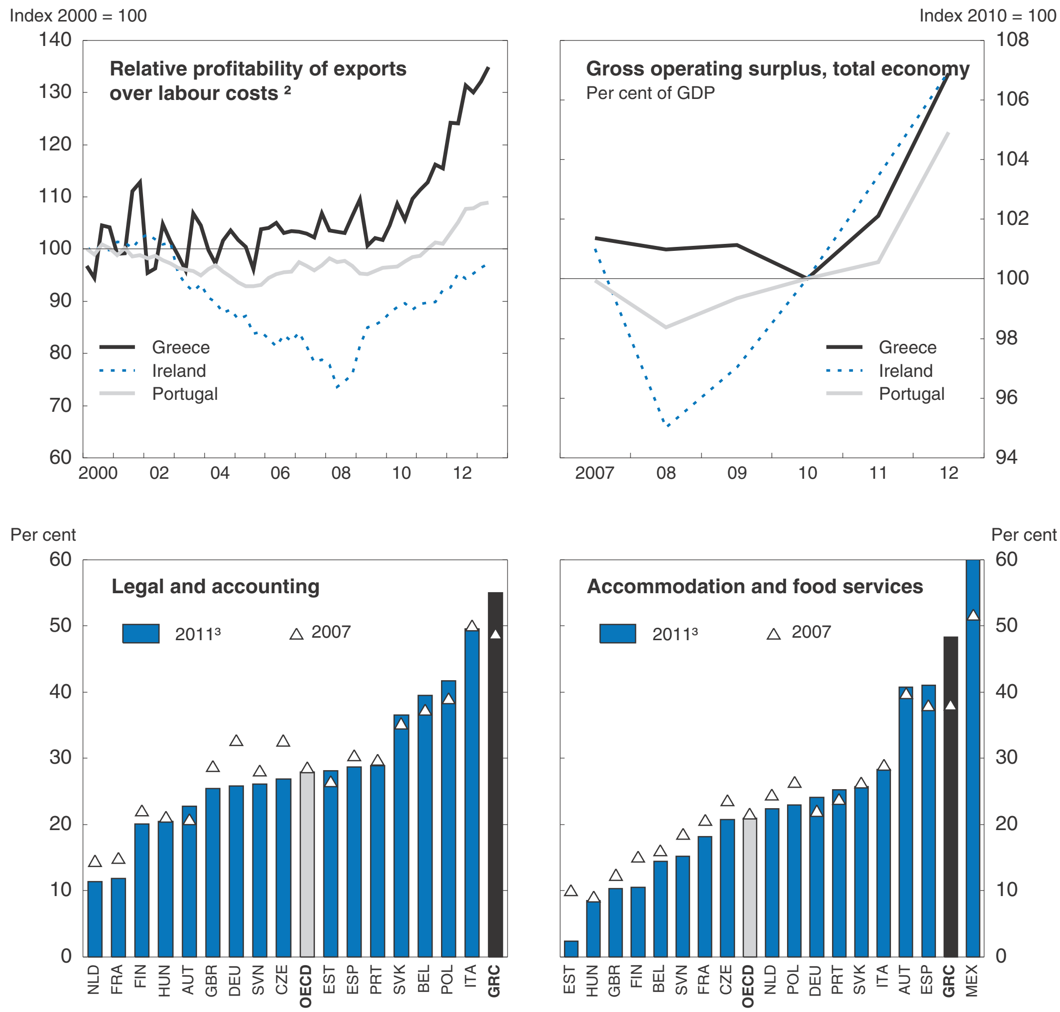
entire region. To exploit Greece's geographical advantage at the crossroads of three continents, Greek ports need to further raise their own productivity. If port activities were well managed, GDP could rise by 2.5% by 2018 (NBG, 2013). But taking full advantage of better ports will require filling the gaps in land-based infrastructure as well (Figure 14).

The government initiative to promote a strategy of development and modernisation of the logistics with the support of the World Bank is welcomed. In this regard, the use of EU resources to improve the transportation network, including inter-modal links between maritime, rail and road transport will be important. The planned privatisation of railways, regional airports and ports hold the potential for further improvement. Better regulation holds the promise of attracting significant investment and bringing private sector know-how to infrastructure management.

In the current context, Greece needs to operate all the available levers at its disposal to stimulate demand and restore investor confidence. The privatisation of public enterprises and the transfer of a portion of state property holdings will lay the basis for new investments to boost demand in the short run and will also have a positive medium-term impact on supply and productivity. It should be accompanied by swift progress with liberalisation of certain sectors for consolidating market confidence in the authorities' determination to stimulate private sector efficiency and growth. Proper regulation would also allay market fears of future competition issues in privatised sectors.

Electricity and gas markets are still dominated by two public enterprises, Public Power Corporation (PPC) and Public Gas Corporation (DEPA), despite the efforts made to respond to the Third EU Energy Package. Welcome reforms have recently been announced to restructure and privatise public utilities. This includes the creation and privatisation of a new electricity company, expected to be operational in 2015, through divestiture of 30% of PPC's production and distribution capacity. The gas sector is also to be privatised, and the recently approved Trans-Adriatic Pipeline project should be used to ensure competition from more gas suppliers, while such investment is expected to enhance the prospects of the economy in general.

Figure 12. **Profit margins[1] in selected sectors**



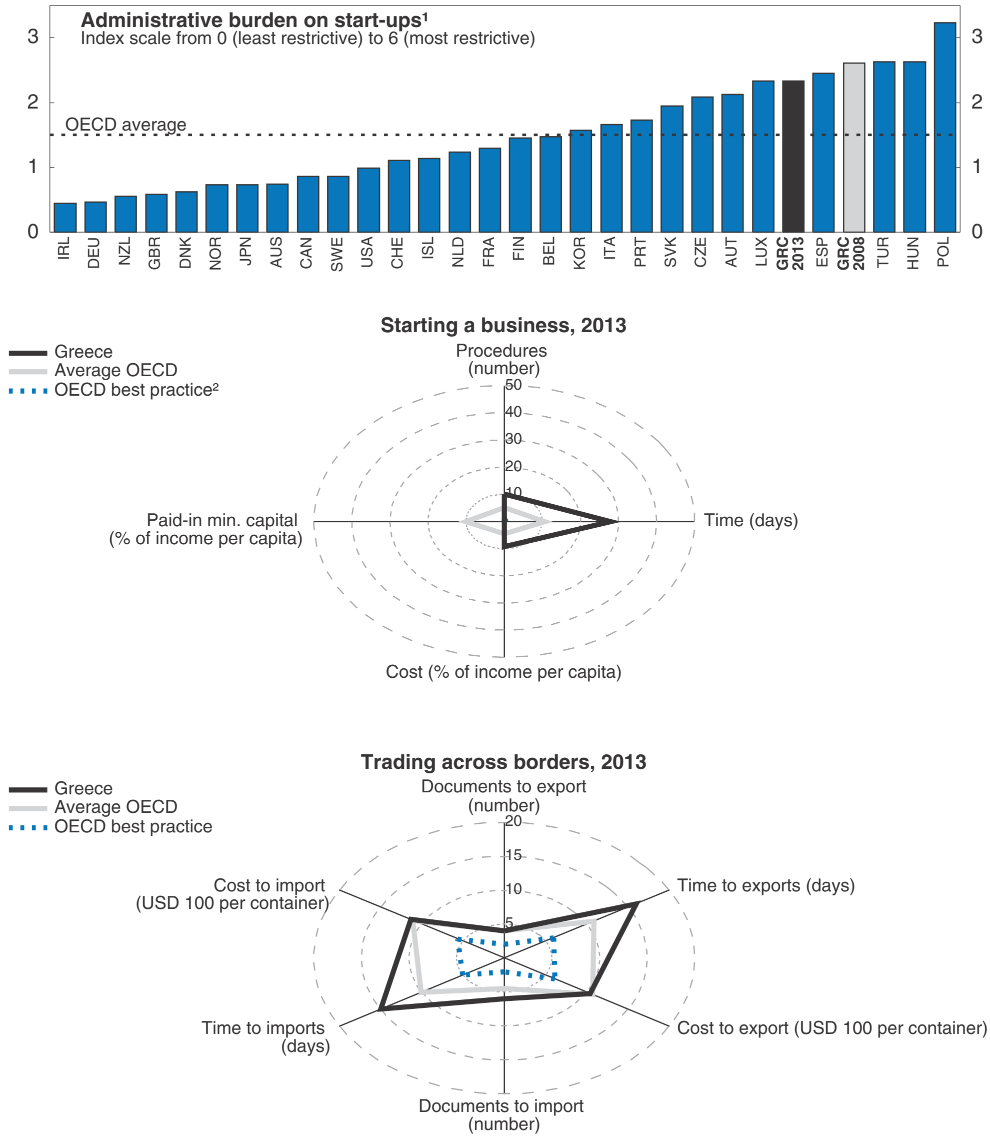
1. Gross operating surplus as a percentage of the value added of the sector.
2. Defined as the ratio of relative export prices over relative unit labour costs.
3. Or latest available data.

Source: OECD, *Quarterly National Accounts and STAN databases.*

StatLink http://dx.doi.org/10.1787/888932957764

Greece has a comparative advantage in several sectors associated with green growth (for instance, renewable energy and waste management). Nevertheless, subsidy schemes to producers of renewable energy need to be reviewed, especially in the case of photovoltaic energy. Financing problems of Renewable Energy Scheme (RES) resulting from too generous feed-in tariffs have been addressed to prevent a deficit which could otherwise increase to EUR 1.7 billion (1.0% of GDP) by 2014. It is important to better take into account the technological and commercial developments which lower production costs for these forms of energy, to preclude the creation of rents for green energy producers – while avoiding abrupt changes – jeopardising investments made. The authorities' decision to regularly review the RES financing system is thus welcome. A better consistency of RES across EU countries would also be desirable.

Figure 13. **Barriers to starting a business and to trade**

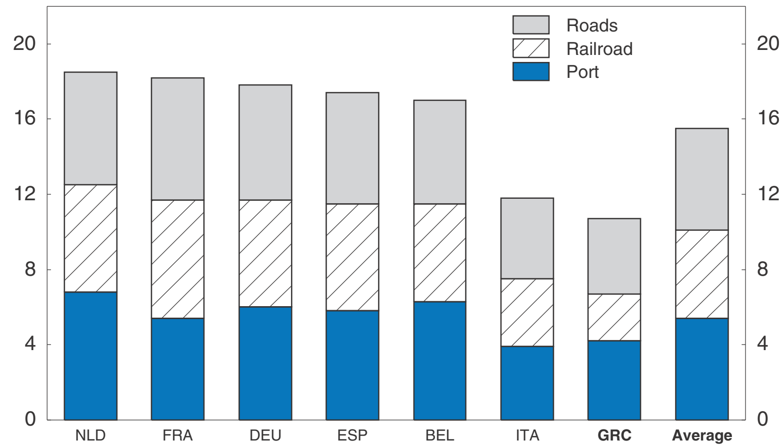


1. The reference year for the data on regulations is 2008 for all countries. The PMR indicator for Greece for 2013 is preliminary and for purposes of comparability is calculated on the basis of the 2008 methodology. For more details, see OECD (2014).
2. The OECD best practices for starting a business is difficult to identify in the panel, as it only requires one procedure performed in one day at zero cost and without minimum capital.

Source: World Bank, *Doing Business database* (*www.doingbusiness.org/data*); OECD (2014), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economic Policy Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888932957783

Figure 14. **Quality of transport infrastructure**[1]



1. Each type of infrastructure is ranked between 1 and 7 according to executive opinion survey. A higher value indicates a higher quality.

Source: World Economic Forum, *The Global Competitiveness Report 2012-13*.

StatLink http://dx.doi.org/10.1787/888932957802

Box 3. **Recommendations to improve the functioning of markets**

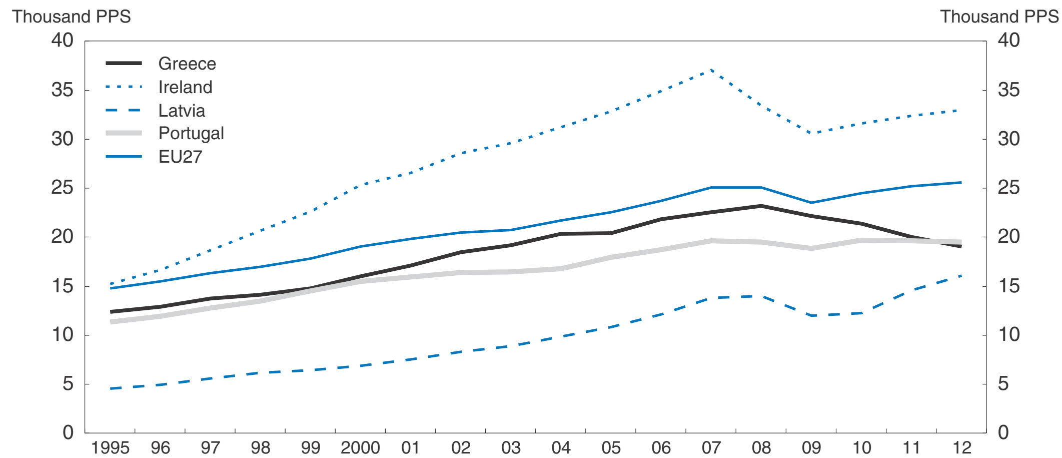
- Further reduce administrative burdens to promote investment. Continue streamlining administrative procedures for exports and imports and simplifying licensing procedures
- Accelerate the privatisation programme, in particular in energy, railways, regional airports, ports and real estate. This should be accompanied by swift progress in liberalisation to avoid the creation of private monopolies and to boost efficiency and growth.
- Channel available EU funds to improve the transportation network.
- Further promote competition in the energy sector.

Fairly sharing the costs and benefits of adjustment

The crisis is having severe social consequences. After narrowing steadily in the decade before the crisis, the income gap *vis-a-vis* the EU average has widened sharply in recent years (Figure 15). While data for income distribution and poverty are only available with long lags, the latest actual data (2010) point to a rise in relative poverty. Inequality remained broadly unchanged (Figure 16).

More recent estimates of inequality and poverty are based on micro-simulation models, which use economic conditions, tax and spending policy changes and aggregate income developments to infer changes in income distribution and poverty (Koutsogeorgopoulou et al., 2013). These models suggest that inequality rose in 2011 and 2012 as the recession deepened and unemployment rose to high levels (Table 6). Relative poverty also seems to have increased in 2012, after remaining broadly unchanged in the previous two years (Table 6). According to OECD estimates, the rise in relative poverty affected especially the unemployed, children, young adults (30-44 years) and students, while public and bank employees, liberal professions and the elderly (where relative poverty actually fell) were less affected (Chapter 2).

Figure 15. **GDP per capita**



Source: Eurostat.

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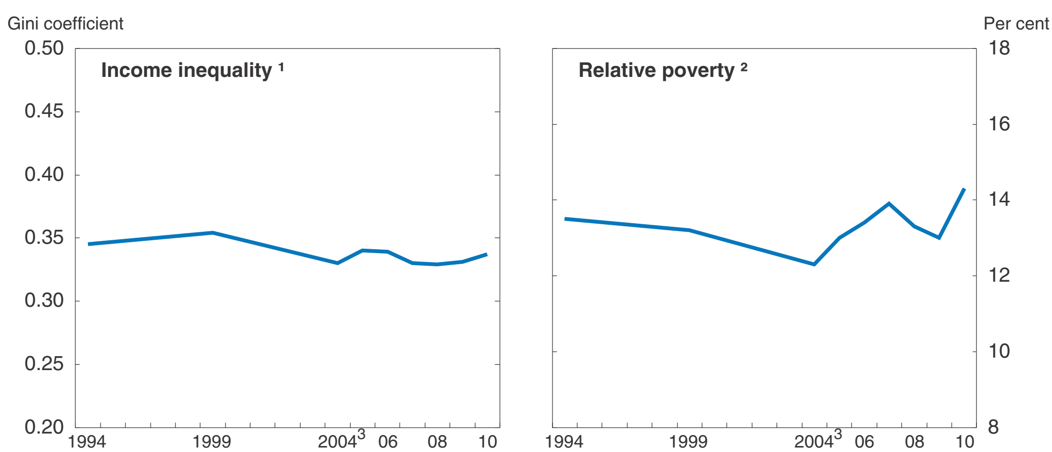
Figure 16. **Income inequality and relative poverty**



1. Gini index of household disposable income (market income after taxes and transfers), total population.
2. Relative poverty rates after taxes and transfers (threshold of 50% of the median income).
3. Annual data from 2004 onwards.

Source: OECD, *Income Distribution database*, via *www.oecd.org/social/inequality.htm*.

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Other indicators also point to worsening social conditions. The number of households in arrears on mortgage or rent payments doubled between 2008 and 2011, increasing vulnerability to homelessness. Unmet health care needs may have risen, notably among the poorest, and health outcomes may have been affected. The economic crisis has also resulted in a large increase of the uninsured population. Around 10% of the population is currently not eligible for health insurance, including the longer-term unemployed and many self-employed workers in arrears with social contributions, although they can use the emergency services of the public hospitals. Life satisfaction declined by more than 20% between 2007 and 2012, according to OECD subjective well-being indicator, exceeding the fall in other euro area countries for which comparable data are available (OECD, 2013c).

Table 6. **Estimated inequality and poverty indices over the period 2009-12**[1]

	2009	2010	2011	2012
Income inequality				
Gini index	0.351	0.349	0.354	0.368
S80/S20 income decile ratio	6.1	6.2	6.5	7.6
S90/S10 income decile ratio	10.3	10.4	12.3	17.4
Relative poverty[2]	13.6	13.8	13.7	15.2
"Anchored" poverty[3]	11.9	15.8	19.7	25.5

1. Based on micro-simulation analysis.
2. The poverty line is 50% of median equivalised disposable income in each year.
3. The poverty line is fixed at 50% of median equivalised household disposable income in 2005 and adjusted for inflation.

Source: . Koutsogeorgopoulou, V. et al., (2013), "Fairly Sharing the Social Impact of the Crisis in Greece", *OECD Economics Department Working Papers*, forthcoming

The social impact of the crisis was influenced both by the worsening economic conditions and policy changes. Data limitations preclude direct measurement of these effects, but the micro-simulation provide estimates (Koutsogeorgopoulou et al., 2013). These simulations quantify the relative impact of fiscal measures across income deciles, with the residual being attributed to economic conditions. Unlike the general public perception that the measures adopted led to a significant increase in inequality, the OECD estimates show that, despite sizeable fiscal consolidation, austerity policies initially reduced inequality (Table 7). As consolidation intensified in 2012, the measures appeared to have made the income distribution slightly more unequal, and, almost inevitably given the depth of the recession, worsened absolute poverty.

Table 7. **Disaggregating the redistributive effects of austerity and the wider recession**[1]

	2009	2010		2011		2012	
		Austerity alone[2]	Austerity + recession	Austerity alone[2]	Austerity + recession	Austerity alone[2]	Austerity + recession
Income inequality							
Gini index	0.351	0.347	0.349	0.346	0.354	0.355	0.368
Δ[3]		-0.005	-0.003	-0.002	0.005	0.001	0.014
S80/S20	6.1	6.0	6.2	6.1	6.5	6.6	7.6
Δ[3]		-0.1	0.0	-0.1	0.4	0.0	1.0
S90/S10	10.3	10.1	10.4	10.5	12.3	12.6	17.4
Δ[3]		-0.2	0.1	0.0	1.8	0.3	5.1
Relative poverty[4]	13.6	13.3	13.8	13.4	13.7	13.7	15.2
"Anchored" poverty[5]	11.9	14.0	15.8	17.8	19.7	21.0	25.5

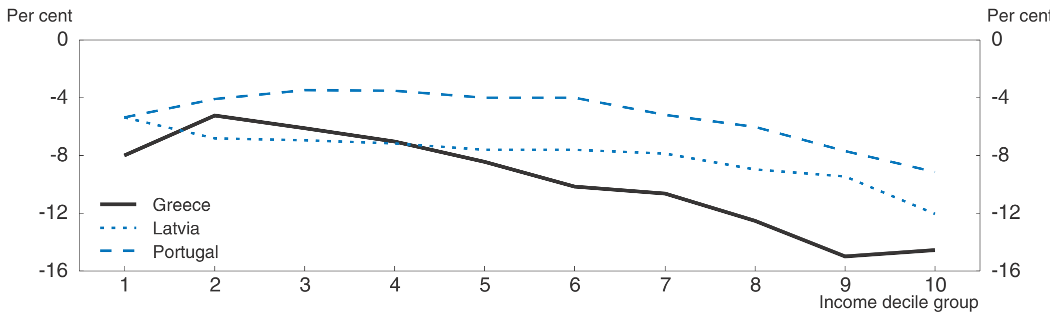
1. Based on micro-simulation analysis.
2. The impact of austerity policies in year t is assessed relative to the state of the economy in t-1. For example, on the basis of the Gini index, austerity policies (alone) made income distribution somewhat less unequal in 2010 compared to 2009 (0.347 versus 0.351). However, they increased slightly inequality in 2012 compared to 2011 (0.355 versus 0.354). The S90/S10 measure shows a larger rise in inequality in 2012.
3. Change relative to the state of the economy in t-1.
4. The poverty line is 50% of median equivalised disposable income in each year.
5. The poverty line is fixed at 50% of median equivalised household disposable income in 2005 and adjusted for inflation.

Source: Koutsogeorgopoulou, V. et al., (2013), "Fairly Sharing the Social Impact of the Crisis in Greece", *OECD Economics Department Working Papers*, forthcoming

Changes in income taxes, cuts in public sector pay and, to a lesser extent, pension reforms, were progressive, both by design and because those mostly affected were at the top of income distribution (Koutsogeorgopoulou et al., 2013). Policies affecting low income households, on the other hand, such as the cut in unemployment benefits in 2012 were regressive. By 2012 income losses for the poorest 10% of the population were considerable and more than in Portugal and Latvia (Avram et al., 2013) (Figure 17). These cross-country estimates exclude more recent fiscal measures (after mid-2012), and do not assess the distributional impact of structural policies.

Figure 17. **The impact of consolidation on household income**

Change in household disposable income due to fiscal consolidation measures up to 2012[1]



1. The measures included here are limited to those having a direct effect on household disposable income. Deciles are based on equivalised household disposable income in 2012 in the absence of fiscal consolidation measures and are constructed using the modified OECD equivalence scale to adjust incomes for household size.

Source: Avram, S. et al. (2013), "The Distributional Effects of Fiscal Consolidation in Nine Countries", *EUROMOD Working Paper*, No. EM 2/13, January.

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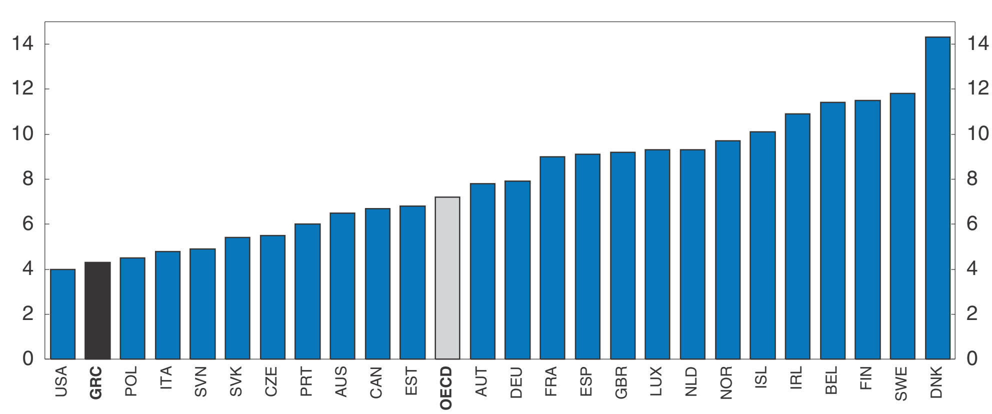
Better targeting of the welfare system resources can cushion the recession

Social spending, excluding pensions and health, accounted for only about 4¼ per cent of GDP at the start of the crisis in 2009, well below other European countries (Figure 18), and was poorly targeted. Nevertheless, part of the pension spending in Greece simply substitutes social assistance, although this regards only the elderly (Leventi et al., 2013).

Figure 18. **Social welfare benefits (excluding pensions and health) are low**

As a percentage of GDP, 2009



Source: OECD, *Social Expenditure database.*

StatLink http://dx.doi.org/10.1787/888932957878

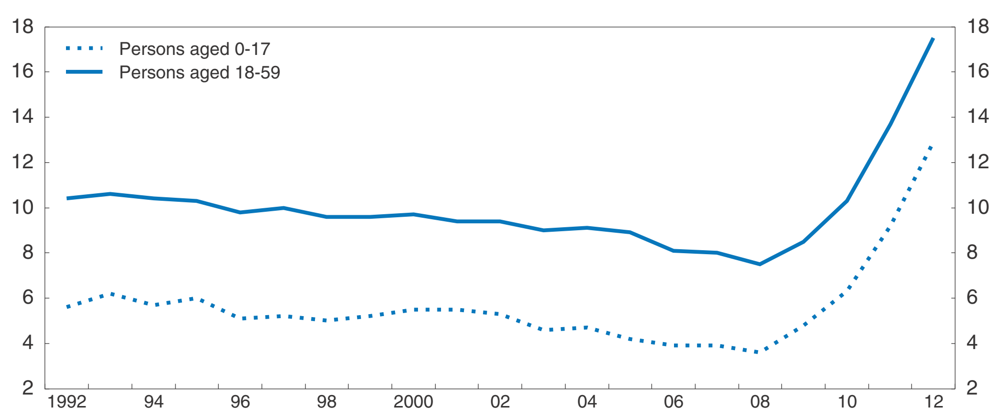
The social protection system was also highly complex, had inequalities in the generosity of benefits and lacked a means-tested general income support (OECD, 2013d). Some of the most vulnerable groups, such as the young unemployed and a large number of poor families in need of housing support, were not covered because, to a large extent, benefits were conditional on social insurance, for which they are not eligible. On the other hand, some benefits, such as family allowances, were not targeted at all. Only 50% of the beneficiaries belonged to the poorest 30% of the population, making coverage for the neediest inadequate (OECD, 2013d). In addition, key benefits, such as unemployment insurance, were low in terms of minimum or median wage in international comparison, lasted for up to one year and were not available to the self-employed. Moreover, the welfare system suffered from poor administration and unequal standards and provisions across social funds.

In the wake of the crisis, benefits for the unemployed were strengthened. Eligibility conditions for unemployment assistance (provided to long-term unemployed having exhausted their one-year insurance benefit) were broadened and means-testing tightened. A means-tested unemployment insurance scheme was introduced for the self-employed. Benefit coverage remains low, however; less than 50% of short-term unemployed received an unemployment insurance benefit in 2012, down from 65% in 2010. Extending coverage will depend on the fiscal situation, but the unemployment insurance benefit would be closer to European norms if its duration were extended to two years, with benefits tapering over time to maintain work incentives. The net replacement rate of unemployment insurance benefits is also still below the international average.

Other social benefits have also become better targeted. The family benefit became means-tested in 2013, and EUR 20 million have been set aside for a means-tested minimum income pilot project, to take place in 2014. The scheme will be targeted to the population living in extreme poverty, providing income assistance in combination with initiatives to combat social exclusion. If this pilot proves successful, a full scale minimum income programme should be put in place. This is particularly important given the sharp rise in the number of jobless households since the onset of the crisis (Figure 19). International evidence suggests that minimum income schemes are very efficient in alleviating extreme poverty (Atkinson, 1998; Farinha-Rodrigues, 2004). Over the longer

Figure 19. **Jobless households increased**

Share of persons by age group living in households where no-one works



Source: Eurostat.

StatLink http://dx.doi.org/10.1787/888932957897

term, once such a programme is introduced and the duration of unemployment insurance benefit has been increased, the means-tested unemployment assistance could be abolished to avoid increasing the complexity of the social welfare system. Plans have been announced for the introduction of broader-based, means-tested housing assistance, although details of the design of the benefit, or the timetable for its implementation, are not yet known. In order to tackle the problem of homelessness, and in view of the underdevelopment of social programmes for the homeless and social housing in Greece, a well targeted housing assistance programme is of high importance.

The authorities could also consider the introduction of a national programme of subsidised school meals, subject to means-testing, at first perhaps on a pilot basis, to address increases in food insecurity among children from poor households. Such programmes exist in a number of OECD countries, for example, France, the United Kingdom and the United States (Matsaganis, 2013). The costs for such a programme would, however, have to be met from savings elsewhere.

The government has also further strengthened controls on welfare programmes. Close monitoring of beneficiaries of the disability benefit, which have been plagued by fraud, has already yielded some savings (EC, 2013b). The government's commitment to proceed further by increasing the number of re-assessments in the near term is welcome. Effective monitoring and timely data are essential for efficient implementation.

The successful move to a better targeted social welfare system requires stronger administrative capacity and control mechanisms, assessment of administrative tools, and timely and accurate information on applicants' incomes. This is particularly important given the significant incidence of undeclared work. The 2013 *OECD Reforms of Social Welfare Programmes for Greece* highlights the need for a more effective system of governance of such programmes. This can be achieved through the acceleration of the rationalisation of social security funds and further consolidation of the remaining ones, and a swift harmonisation of information systems across the funds (OECD, 2013d). Reducing complexity and overlap at both central and local levels is essential for efficient targeting.

The crisis also triggered further changes in the pension system, which was highly complex and unequal with regards to benefits. A comprehensive reform in 2010 strengthened the long-term viability of the system by reducing generosity and certain elements, including the increase and equalisation of the retirement ages, enhanced equity (Rawdanowicz et al., 2013). The reform also introduced a means-tested basic pension for the uninsured or those with insufficient years of contributions, enhancing the safety net. However, inequalities remain as some professional groups, such as liberal professions, kept their independent and more generous schemes. In addition, although the 2010 reform simplified the structure of the system, leaving only 6 pension funds (not long ago, there had been well over 100), there are still 93 sectoral systems under these broad funds with different social security contributions.

Removing remaining pension exemptions applying to specific groups would promote distributional fairness, besides contributing to fiscal consolidation. Subject to budgetary constraints, reforms could also seek to harmonise and rationalise the contributions rates to the various pension and sickness funds, as benefits seem to have been equalised to a large extent. The pension contributions of many professionals – engineers, for example face flat contributions regardless of earnings – could usefully be rationalised.

Box 4. **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.
- Target selected social benefits more efficiently and introduce a properly targeted minimum income scheme.
- 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.
- Introduce a national programme of subsidised, means-tested school meals.
- 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.
- Harmonise contribution rates to pension and sickness funds.

Ensuring access to healthcare services, while containing costs

Access to good public health care can improve equity and longer-term growth (OECD, 2011b; Hoeller et al., 2012). Health spending in Greece, at around 10% of GDP, was relatively high before the crisis but the sector was characterised by many inefficiencies, as discussed in the special chapter on health in the 2009 *Economic Survey* (OECD, 2009) and by Economou and Giorno (2009). Cuts in health spending should focus on inefficient spending, and as far as possible reduced service levels should be avoided. Recent evidence of deteriorating health indicators in mental health and infectious diseases (for example, HIV and malaria) highlight the need for maintaining critical preventive public healthcare services, which will tend to benefit more the low-income groups who are likely to be more prone to these diseases (Vakali et al., 2012; Karanikolos et al., 2013).

The loss of health insurance for a large number of workers and their families since the onset of the crisis is of major concern. In Greece, the long-term unemployed lose both unemployment benefits and health coverage after two years (Economou et al., 2013). Self-employed people who have not paid social insurance fees also have no coverage. There has been a large increase of the uninsured population since the crisis begun. Based on official estimates, around 10% of the population is currently not eligible for health insurance. Some of them benefit from means-tested access to limited basic health care services, but certain vulnerable groups – such as illegal immigrants, the self-employed who closed down their businesses but do not have a tax clearance certificate, and households whose income exceeds the means test (threshold EUR 5 000 per year) – are excluded from coverage. Nevertheless, they are able to use the emergency services of public hospitals.

Recent policy initiatives to reduce the health insurance gap include a reduction in the days of insurance payments required for full medical coverage, and a temporary extension of health coverage for the unemployed from two to three years. A new Health Voucher Programme, underwritten by the European Social Fund, was launched in 2013 aiming to provide access to primary healthcare services for 230 000 long-term uninsured. These initiatives are important to cushion the recession, and assuming it remains fiscally possible, they should be continued until the economy improves substantially in order to provide adequate basic level coverage to those unprotected.

Box 5. **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.
- Monitor closely the health impact of the crisis on the population and, if required, take further actions to protect public health.
- Focus health care cuts on reducing inefficiencies, while avoiding cuts on efficient and critical programmes.

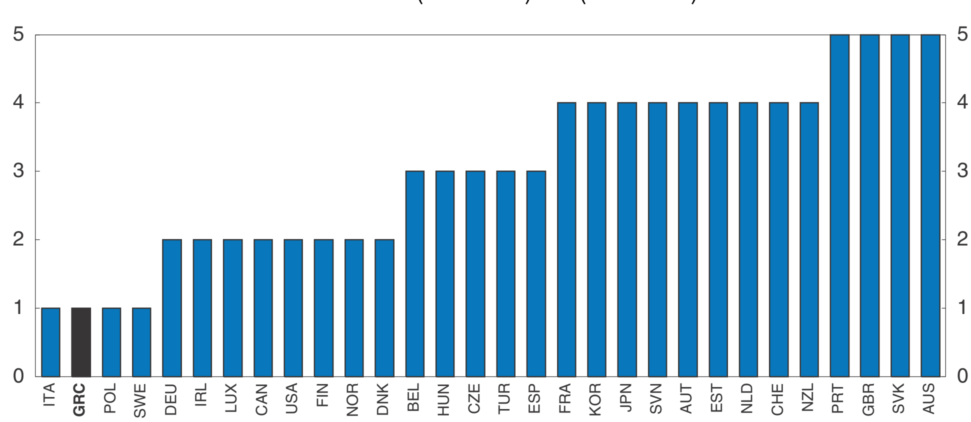
Enhancing activation policies

Unemployment, especially among youth (with an unemployment rate around 60%), is very high. Labour market integration of young people is essential to avert long-term adverse effects as a consequence of prolonged unemployment and low-income spells early on in their careers (OECD, 2013e). Reducing unemployment and avoiding its high social and fiscal costs require activation policies, which will be costly at a time when fiscal resources are very tight. The Public Employment Service (OAED) has launched a number of active employment policies and vocational programmes since the crisis. So far, fully implemented programme spending accounts for 0.3% of GDP, and an additional 1.7% of GDP has been allocated for this purpose. Rigorous and systematic evaluation of the programmes is essential, however, to identify what works and what doesn't and to ensure spending is as effective as possible. Those that work should be expanded, and the others wound down. An action plan adopted in 2013 to assess the programmes is therefore welcome. A plan is in place to modernise OAED, and if possible it should be brought forward.

The reach of training, counselling and employment services can be extended by subjecting stricter obligations on unemployment benefit recipients, more intensive monitoring and by imposing sanctions. Extending this approach to active job search, where monitoring is now low (Figure 20), as the economy improves would help direct the

Figure 20. **Job-search monitoring**

Scored from 1 (least strict) to 5 (most strict)[1]



1. The score reflects criteria for job search monitoring in place in early 2011. For more details, see *Source.*

Source: Venn, D. (2012), "Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries", *OECD Social, Employment and Migration Working Papers*, No. 131, OECD Publishing (*http://dx.doi.org/10.1787/5k9h43kgkvr4-en*).

StatLink http://dx.doi.org/10.1787/888932957916

unemployed to activation programmes best suited to their need (OECD, 2010; OECD, 2011a). A legal framework for such "mutual obligations" has existed since 1985. However, monitoring is weak and there is no record kept of benefits actually having been withdrawn. To be effective the law needs to be enforced and its outcomes monitored closely, in line with best OECD practice (Figure 20).

Strengthening the role of labour inspection to safeguard social outcomes

The authorities should closely monitor the impact of the recent labour market reforms (discussed above) for unintended social outcomes. Individual contracts are spreading fast, outpacing the rise in firm-level collective agreements. This is welcome, as it is essential for economic adjustment, but 98% of firms have fewer than 10 employees, and the majority of workers have no bargaining experience (Voskeritsian and Kornelakis, 2011).

Strengthening the role of labour inspection to ensure full enforcement of the labour code, including for health and safety rules, would be important. As a positive step, a recent law reinforces the capacity of the labour inspectorate, providing for closer co-operation with the financial police. To combat undeclared work, it further imposes fines on firms that employ unemployment benefit recipients. An Action Plan has been elaborated by the government, on the basis of ILO findings, to strengthen the overall function and effectiveness of labour inspection system. Its timely implementation is essential. The adoption of a single Labour Code, as envisaged by the government, would reduce complexity and increase enforceability (IMF, 2013c).

Box 6. **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.
- 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.

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ANNEX A.1

Progress in structural reform

This table reviews recent action taken on recommendations from the previous *Survey*. Recommendations that are new in this *Survey* are listed in the relevant chapter.

Recommendations	Action taken since the previous Survey (June 2011)
Financial sector	
Continue close surveillance of the financial sector and the credit supply to ensure that the banking sector support plan is responding adequately to re-capitalisation needs, as the economic situation evolves. Banks should continue improving their balance sheets given the prevailing systemic risks associated with a possible restructuring of the public debt.	Following the weakening of banks' capital base and their heavy losses due to the crisis and the Private Sector Involvement in the public debt restructuring in March 2012, a recapitalisation and resolution plan was adopted. Four core (systemic) banks were recapitalised. All other banks unable to recapitalise themselves through the private capital market were resolved. Shareholders suffered substantial losses but all depositors were protected.
Continue liquidity support to banks. Attempt to reduce banks' dependency on ECB liquidity through restructuring operations should be approached with caution, to avoid a credit crunch.	The recapitalisation plan and enhanced political stability have boosted depositors' confidence. Bank deposits rose between June 2012 and July 2013. This has partly offset the fall between end-2009 and mid-2012. Banks' dependence on Emergency Liquidity Assistance financing has also been cut.
Promote partnerships or mergers with foreign banks, including by divesting remaining government holdings.	Thanks to the resolution framework the healthy units of seven non-core banks have been absorbed by the core banks.
Fiscal policy, budget framework and statistical issues	
Maintain a strict control of the primary budget balance. Pursue a strict implementation of the programme agreed with the Troika.	The deficit targets were met despite weaker-than-expected growth. In 2013 a fiscal primary surplus is likely to be reached.
Ensure a fair burden sharing of the adjustment. Put more efforts into explaining the benefits of the changes.	Consolidation measures were designed to have greater impact on those with higher incomes. Benefits for the unemployed were strengthened and social benefits became more targeted, as in the case of family benefits. EUR 20 million were set aside for a means-tested minimum income pilot project, to take place in 2014.
All laws presented to Parliament should include an evaluation of their budgetary impact, and be systematically integrated in the medium-term fiscal plan to update it and maintain its reliability.	A medium-term fiscal strategy extending budget projections by four years is prepared and voted every year in May by the Parliament.
Pursue efforts to rapidly get timely and good quality data on budgetary execution and payment commitments from local governments and the social security system.	Progress was recorded on the monthly and quarterly information provided on the budget execution. The Internet portal created for recording expenditures is increasingly used, including by the main health insurance fund (EOPYY) since December 2012. However, there are still persisting difficulties with government arrears payments.
Publish quarterly national accounts for the government and household sectors. Develop more up-to-date and seasonally adjusted indicators covering all key economic sectors. Improve statistics on government employment and public sector pay.	Progress was made in most of these domains. General government employment time series should be more readily available. Seasonal adjusted time series for national account data published by the Greek statistical office are still missing.

Recommendations	Action taken since the previous Survey (June 2011)
Fighting tax evasion and improving the tax system	
Further simplify the tax system. Remove the many remaining exemptions and deductions in corporate taxation, and the bias in the taxation system in favour of the self – employed. Lower further the high tax-free threshold on personal income tax.	In 2013, several tax deductions and credits of the personal tax system were removed (for student expenses, life insurance, mortgage interest, etc.) and its number of tax bands was cut from 8 to 3. For the self-employed, the tax-free threshold was eliminated and the initial tax rate was set at 26% rising to 35% on incomes beyond EUR 50 000.
Remove the preferential VAT treatment of some products, professions (e.g. lawyers, notaries) and of the islands. Abolish the large number of the taxes collected on behalf of third parties.	VAT exemption was abolished for lawyers and notaries. VAT exemption for services of hospitals and medical services was restricted to public law and non-profit organisation suppliers.
Strengthen the functioning of the tax administration. Improve auditing activities through better qualified personnel. Grant auditors easier access to taxpayers' bank account information. Consider experimenting with the use of private services in tax administration. Develop and publish indicators for tracking the effectiveness of measures taken at the different stages of the taxation process.	The tax administration has been given greater autonomy, with the nomination of a more independent secretary-general in January 2013 for a five-year term with broader powers and responsibilities. This was accompanied by more accountability for staff with regular appraisals of their performance. Personnel training have been instituted with the Task Force's help to develop the risk-based audits and to create specialised units by type of fraud. The administration has now more direct access to bank information and will be able to use indirect methods for assessing taxpayers' income without having to resort to specific mechanisms. Indicators were developed to better assess the effectiveness of tax collection, including at the local level.
Centralise the administration and collection of taxes and social security contributions under a single authority, to facilitate the cross-checking and verification of information. The scope and use of tax compliance certificates should be widened.	The authorities have initiated a rationalisation of the collection of social contributions, which has been entrusted to a single agency, the IKA, for all pensions and sickness insurance funds since July 2013.
Tax amnesties should be discontinued. Naming and shaming significant tax evaders should become the rule. Visible and successful prosecution of tax evaders is needed. Impose meaningful penalties. As in some Nordic OECD countries, consider publishing the revenue declaration of all taxpayers.	Naming and shaming significant tax evaders has become more frequent. However, more effort is needed to boost the credibility of the authorities' ability to identify and promptly punish tax cheaters. The most important challenge is to improve the functioning and the speed of court proceedings.
Public administration	
The management of public administration should be improved: by 1) focusing on the recruitment of high – quality entrants, 2) improving the incentive structure to encourage better productivity and introducing a culture of evaluation of staff performance based on clear individual objectives 3) continuing to only partially replace retirees.	The authorities are likely to meet their employment reduction objective of 150 000 between 2011 and 2015 by replacing only one in five retirees. To address inadequate staff allocation, a new "mobility scheme" has been developed. By end-2013, 25 000 persons are to be transferred to this programme. Moreover, 15 000 employees will be laid off by the end of 2014 to make room for new qualified staff.
Continue efforts towards containing personnel outlays. Proceed with the planned rationalisation of the special benefits received by public sector employees.	The 13th and 14th month bonuses were cut and the fragmented management of pay by ministries and public agencies was replaced by a salary grid in November 2011. This was extended to special pay regimes (for judges, professors, police and military, etc.) in November 2012. These reforms have not only reduced average pay levels by nearly 20% but have rationalised their structure.
Ensure that policies are implemented fully and efficiently once legislation has been passed. Establish clear responsibilities in ministries for monitoring reform implementation more closely on the basis of objective indicators. The results should be published widely under the scrutiny of the social partners.	A General Secretariat reporting directly to the Prime Minister has been created to coordinate the work of the ministries and to supervise the implementation of reforms.
Consider changing the civil servants status for new employees putting an end to life-job security guarantee and replacing it with open-term contracts, as for private sector employees.	No action.
Adopt a rigorous and comprehensive system for Regulatory Impact Assessment to improve the checks and balances of legislations and regulations. An institutionalised centrally-led review of the stock of laws and regulations assessing their competitive effects should be considered.	In 2012, the Parliament introduced the OECD Principles of Better Regulation in the legislation, although implementation is lagging. With the OECD support, the authorities have also embarked on a project to reduce by 25% the administrative costs of existing regulations in 13 sectors of the economy.

Recommendations	Action taken since the previous Survey (June 2011)
Health care reform	
Rationalise the management of public hospital procurement. Professionalise hospital administration by appointing qualified managers and extend their administrative autonomy. Institute a hospital funding based on pathological categories.	Hospital costs have been reduced through stricter management of tendering for purchases of medical goods and services and reductions of personnel costs. A series of measures were introduced to improve the management and funding (e.g. DRGs) of the system.
Ensure that medical demography respond to health care needs. Increase the number of nurses and the proportion of general practitioners. Develop a system of referring physicians.	A reform in primary care is under way in 2013 to improve the allocation of resources and the functioning of primary care.
Rapidly introduce the OECD system of health accounts. Create a body to dispense advice on economic assessment of health goods and services and medical practices.	In 2013, for the first time, a system of health accounts consistent with OECD recommendations was published. The hospital accounting system has also been reformed and modernized.
Introduce portable health record books along with incentives for patients to show them at each medical consultation.	Progress in hospital and primary care computerisation will allow for the setting up of a basic electronic system of patient's medical records in the future.
Consider reviewing how pharmacists are compensated to reduce incentives to sell the most expensive drugs. Promote the distribution of generic drugs. Review packaging standards for pharmaceutical products so as to limit waste.	New drug pricing regulations were introduced in 2012 and 2013 to increase transparency, efficiency, including generic use. The statutory private pharmacies' mark-up on wholesale price will be 32.4% for drugs below EUR 200, and a fixed amount of EUR 30 for drugs above this limit.
Bolster supervision of medical practices to limit the spread of informal payments. Introduce formal co – payments for outpatient care. Differentiate the compensation of hospital doctors between specialities. Review how doctors are paid: introduce a hybrid system combining capitation payments and fees for service.	User charges for visits to outpatient department hospitals have increased in 2011 and co-payments for prescribed medicines in 2012 and 2013. Moreover, a fee was introduced for consultation with doctors of the national health system (when the maximum number of free consultations per month (150 or 200) provided by such doctors is exceeded).
Pension reform	
Move quickly to outline reform plans that will contain future pension expenditure.	A new two-tier pension structure will be introduced in 2015 that distinguishes between a basic and a contributory proportional pension. The new accrual rates for the contributory scheme will depend on the year of service. A law in 2012 merged existing supplementary pension schemes to a single scheme (ETEA). Pensions will be calculated in an actuarially neutral manner based on workers' contributions and an adjustment mechanism that guarantees the system's financial viability.
Further encourage private pension arrangements.	No action.
Change the conditions for awarding minimum pensions so that access is limited to persons who have reached the statutory retirement age.	A law in 2012 raised the statutory retirement age for future cohorts to 67.The minimum age for access to means-tested Pensioners' Social Solidarity Benefit (*EKAΣ*) was also raised under Law 4093/2012, from 60 to 65 years.
Limit the list of strenuous occupations to reduce the number of people eligible for early retirement under preferential conditions.	A law in 2012 revised considerably the list of arduous professions, aiming to reduce the coverage to less than 10% of the working population.
Education	
Increase the supply of early childhood services, especially for children under 3 years.	No action.
Consider introducing universal access to early childhood education for four years-old and, if possible, three year-olds.	No action.
Develop a more integrated system of early childhood education and care. Ensure consistency of supply and quality for services.	No action.
Continue strategies to counteract the effects of disadvantaged backgrounds on performance.	More than 1500 school units (around 190 000 students) in regions with low educational and social/economic indicators are placed in zones of educational priority, supported by policies such as the operation of reception and remedial teaching classes. There was also a rationalisation of schools, through merging, to improve teaching conditions and offer extended syllabus options. The number of all-day schools has more than doubled between 2005-06 and 2012-13.

Recommendations	Action taken since the previous Survey (June 2011)
Improve teachers' professional development.	Recent reforms include the introduction of in-service education and training of teachers, including targeted training on the implementation of new curricula.
The school curriculum should better equip students with the competences to succeed in their post-school life. Introduce a nation-wide final exam for upper secondary school and separate it from university access exams.	The new curricula for secondary education are applied on a pilot basis. A reform under way aim at overhauling upper secondary school, including through changing the system of examination for entering university.
Increase school autonomy. Move towards a less centralised management governance structure.	No action.
Improve school accountability. Develop efficient evaluation system of teachers.	The new policy of evaluation of schools (including the schools' self-assessment) and educational staff is being implemented.
Proceed with the amendment of the Constitution to: *i)* allow private universities and *ii)* introduce fees for undergraduate students at a moderate level, providing student loans.	No action.
Implement swiftly a well-performing evaluation system of universities. The funding of institutions could be related to indicators of performance which are simple and transparent. Increase the autonomy of universities in terms of selecting staff.	Two new laws adopted in 2011 and 2012 aim to enhance the responsiveness, quality and performance of higher education, including through the external evaluation and merging (project "Athina") of higher education institutions.
Labour Market Reform	
Lower the minimum wage for "vulnerable workers" (especially the young). In setting minimum wages, take into account high youth unemployment.	The statutory minimum salary has been lowered by 32% to EUR 511 for employees under 25 and by 22% to EUR 586 for those 25 and older. The government is now responsible for setting this minimum wage after consultation with the social partners and academics, taking into account the employment situation.
Encourage decentralised bargaining by avoiding administrative extension of collective agreements to parties not directly represented in the original agreements. Consider eliminating occupational and sectoral agreements in the longer term.	The administrative extension of the sector-wide salary agreements has been suspended, and firm-level collective agreements now prevail over sector- or occupation-level agreements, even if they are less generous.
Promote the use of firm-level wage agreements and their rapid expansion.	All firms, whatever their size, can negotiate their own collective agreements with associations representing at least 60% of their employees. Before October 2011, only firms with more than 40 employees benefited from this arrangement.
Reduce severance costs for white-collar workers and align them with those for blue-collar workers. Transforming severance pay legislation into a system of individual accounts as in Austria should be considered.	The length of prior notice of dismissal has been shortened to a maximum of four months, compared to 24 months for white-collar workers previously. The severance pay for white-collar workers has been reduced and subjected to a ceiling of 12 months' salary.
Ease employment protection for temporary work. Promote the use of fixed-term contracts by lowering their early termination costs. Relax existing restrictions on the use such contracts.	No action taken. However, the length of the trial (probation) period for newly hired (non-temporary) workers has been increased from two months to one year.
Reduce non – wage costs, in particular social security contributions for the low – paid, financed by spending restraint.	Current arrangements allow the conversion of unemployment benefit payments into employment or training subsidies.
Child care subsidies should be increased and family allowances extended to single parents, subject to fiscal constraints.	Family benefits became means-tested in 2012.
Enhance the transition from school to working life. Encourage training of those already in the labour force.	The Public Employment Service (OAED) implements policies to enhance job retention and facilitate integration of young people in the labour market, and to support older workers and enterprises, in crisis-affected sectors, such as tourism.
Establish a comprehensive system for assessing active labour market policies (ALMPs).	An action plan was adopted in 2013 to assess activation programmes. A business plan to modernise OAED aims at the creation of ALMPs documentation and a system for diagnosing labour market needs.
Enhance the capacity of the Labour Inspectorate to monitor the enforcement of labour law and fight informality.	A law in 2013 enhances the capacity of labour inspectorate, providing for closer co-operation with the financial police. It also imposes fines on firms that employ unemployment benefit recipients.
Make unemployment benefits conditional on job-search requirements, with sanctions for non-compliance.	A legal framework for "mutual obligations" is in place since 1985 but no record kept of withdrawn benefits.

Recommendations	Action taken since the previous Survey (June 2011)
Public enterprises and entities, privatisation strategy and product market reform	
Continue restructuring state-owned enterprises (SOEs). SOEs making recurrent losses should be closed and/or privatised.	Restructuring of SOEs has continued for instance in transport. The public broadcaster (ERT) was closed down in 2013.
Strengthen efforts to guarantee the rapid and strict implementation of the privatisation and real estate asset development plans. The new general secretariat for public property should be given clear and quantifiable objectives with adequate authority including for dealing with the issue of illegal occupation of public real estate asset.	Since autumn 2012, the "golden shares" applying to certain SOEs have been removed. Problems of consistency of state aid with European rules have been identified and are being regularised. Semi-annual updates of privatisation plans are now released, including revenue targets for the current and following year, and the tendering schedule. However, 2003 privatisation target is unlikely to be met.
Ensure the immediate elaboration and implementation of the point system, to be used by the competition authority (HCC) to prioritise cases. The new system needs to be workable and based on a set of objective and transparent indicators.	The point system reform has been implemented. HCC can define its priorities for serving the public interest by focusing on cases that are considered to have the greatest impact on competitive behaviour.
Facilitate the creation and exit of companies by reducing regulatory burden and monetary costs. Progress rapidly towards the completion of a one-stop system enabling the on-line completion of licensing procedures under the implementation of the EU Services Directive.	Since 2011 a "one-stop shop" and an on-line national registry (GEMI) exist for administrative procedures. Since July 2012 entrepreneurs can create a new kind of company (IKE) that does not require any minimum corporate capital. The costs of creating other legal business forms have been cut by more than 60%. A new review of this administrative procedure is under way with World Bank support to cut these costs further.
Proceed with the simplification of the licensing procedures for technical professions and manufacturing activities. Establish mandatory deadlines for the completion of licensing approvals and tacit approval in the case of non-adherence to avoid delays.	Since 2011, licenses are issued immediately for "low-nuisance" manufacturing and technical activities (75%-80% of applications) and an *ex-post* audit system has been instituted. However, "low-nuisance" is defined using outdated criteria based on power use. Many licensing procedures also remain complex, time-consuming with uncertain outcome. A three-year plan is being developed with the support of the World Bank to more effectively lower these barriers to investment.
Promote export activity and reduce the bureaucratic barriers to exports.	In October 2012, an action plan for 2013-15 was designed to reduce the bureaucratic barriers to exports with the creation of a national "single window for exports". Some stages of the plan have already been put into effect, such as the introduction of an electronic customs declaration system and free access to the profession of customs agent.
Energy. Consideration should be given to separate the operations (generation, transmission, and distribution) in the electricity sector to promote further competition. Ensure strong and effective sector regulators. Abolish exclusive rights of PPC to use lignite mines. Preferential tariffs should be removed, to ensure that the electricity prices reflect the electricity costs of additional supply, and should be replaced by targeted income transfers.	In July 2013, a plan was adopted for unbundling ownership of the transmission operator (ADMIE) from PPC before the end of 2013. This plan includes the creation and privatisation of a new, vertically integrated power utility through divestiture of 30% of PPC's production and distribution capacity. This new company should be operational in 2015. It would have a generating mix similar to that of PPC, with lignite-fired plants and access to lignite resources.
Consider transferring the Gas Transmission System Operator to full government ownership, or private ownership. Ensure the full operational separation of the existing gas distribution companies from the Public Gas Corporation (DEPA).	The transmission operator (DEFSA) has been privatised and the privatisation of the gas company (DEPA) should resume soon.
Transport. The reform of the road freight sector should be speeded up by eliminating price restrictions and barriers to entry for trucks operating freight transport on behalf of a third party.	The transition period for this road freight reform, adopted in 2010, was shortened, making it effective as of the beginning of 2012 instead of June 2013.
Implement swiftly the restructuring plan of the railway sector, followed by the liberalisation and privatisation of the provision of railway.	The public firms responsible for rail transport have been restructured. Two major entities have been created for managing rail infrastructure (OSE) and for transport services (TRAINOSE). The authorities intend to strengthen the powers of the independent railway regulator (RAS) with a view to privatising TRAINOSE in the second half of 2013.

Recommendations	Action taken since the previous Survey (June 2011)
Pursue the implementation of the new law on opening up closed professions, monitoring closely its effectiveness in boosting competition and supply. The possibility of reinstatement of restrictions entailed in the new law needs to be limited to public interest cases only, as envisaged by the legislation. Remove remaining barriers in the form of geographical restrictions for lawyers, and fixed profit margins for pharmacists.	At the beginning of 2013, nearly 75% of regulated professions had been opened to competition, with the adoption of many measures including: increase in the number of notaries and reduction in the fees they charge; elimination of unfair restrictions for access to the engineering profession; abolition of the mandatory presence of lawyers for certain acts, such as property transfers; relaxation of rules for the establishment of new pharmacies; reduction in their mark-up rates, etc… An assessment of the measures adopted in the 20 most important regulated professions is being prepared by the authorities.
Remove identified regulatory restrictions in retail and wholesale sectors. Remaining controls on prices in retailing should be abolished.	Liberalisation measures recently adopted include: abolition of the obligation on wholesalers to notify their price lists in advance to the authorities; removal of restrictions on the minimum floor area of a new store and of the rules preventing the sale of certain products (baby milk or newspapers) in supermarkets; liberalisation of Sunday opening for small retailers and allowing larger stores to do business on seven Sundays during the year. The authorities are also completing an evaluation of regulations using the OECD Competition Toolkit to strengthen competition in the retail, manufacturing, building materials and tourism industries.

Chapter 1

How to get growth going

The radical adjustment programme initiated in 2010 based on strong fiscal consolidation, deep structural reforms and an internal devaluation to restore international competitiveness has sharply reduced Greece's fiscal deficit, increased labour market flexibility and reduced labour costs. Shrinking domestic demand has also led to a substantial reduction of the current account deficit. Pension and health care reforms have strengthened longer-term fiscal sustainability. However, despite several revisions, the programme has failed to restore price competitiveness, growth and public debt sustainability. The fiscal contraction has deepened the depression. Economic recovery has been held back by the inability of the banking sector to supply credit and by persistent uncertainties related to the large public debt. Given the time it takes for structural reforms to bear fruit, robust and sustainable growth would be underpinned by faster product market reforms to accelerate price adjustment and foster the reallocation of resources towards more productive and export sectors. Moreover, a more efficient and modernised civil service is essential to improve the quality of and trust in public services, increase willingness to pay taxes, and to strengthen the rule of law, competitiveness, and foreign investment.

This chapter analyses the macroeconomic, fiscal and structural outcomes of the adjustment programme, as well as the obstacles to recovery. It compares the performance of Greece with that of other countries in similar situations (Box 1.1). It then assesses the adequacy of recent changes to the reform programme to restore growth, including reforms of the public administration and of the product and labour markets.

Box 1.1. **The Greek adjustment programme in perspective**

The 2007-08 economic and financial crisis exposed vulnerabilities in Greece and several other European countries with euro pegs where large imbalances had been boosted by easy and cheap credit. In Ireland, the bursting of a real estate bubble sparked a banking crisis and led to severe fiscal difficulties (Table 1.1). Latvia's large external deficit was fuelled by credit-fuelled excessive domestic demand following its accession to the European Union. Portugal was exposed to the dual problem of external and fiscal imbalances caused by a lack of competitiveness and poor management of its public accounts.

Table 1.1. **Economic imbalances and financial support programme provided to selected European countries**

	Greece	Portugal	Ireland	Latvia
Size of imbalances at the onset of the crisis				
Current account balances (% of GDP)	-14.9 (2008)	-12.6 (2008)	-2.3 (2009)	-22.4 (2007)
Net foreign debt (% of GDP)	88 (2009)	85 (2009)	-297 (2010)	57 (2008)
General government balance (% of GDP)	-15.6 (2009)	-10.2 (2009)	-30.9 (2010)	-4.2 (2008)
Structural government balance (% of GDP)	-16.5 (2009)	-7.5 (2009)	-9.1 (2010)	-6.3 (2008)
Government debt (Maastricht definition) (% of GDP)	130 (2009)	83 (2009)	92 (2010)	20 (2008)
Loss of access to private-sector financial market	S1 2010	S1 2011	S2 2010	S2 2008
Signature of an international support programme	May-10 Mar-12	Jun-11	Feb-11	Jan-09
Amount of the official financial support programme (% of GDP)	32 84	47	54	41
Size of imbalances in 2012				
Current account balance (% of GDP)	-3.4	-1.5	4.9	-2.9
Net foreign debt (% of GDP)	119	95	-371	40
Structural government balance (% of GDP)	-0.8	-3.2	-4.5	-1.2
General government balance (% of GDP)	-6.2[1]	-6.4	-7.5	-1.7
Government debt (Maastricht definition) (% of GDP)	157	124	118	42

1. Deficit excluding one-off capital transfers of 2.8% of GDP paid by the government for banks resolution and restructuring.

Source: Eurostat; OECD, *OECD Economic Outlook database*.

Box 1.1. **The Greek adjustment programme in perspective** *(cont.)*

As imbalances worsened, international markets lost confidence in these countries' ability to repay their debts. Lost market access obliged them to resort to financial assistance programmes, including loans from their European partners and the IMF on highly favourable terms. The assistance has been conditional upon fiscal consolidation and structural reforms to achieve an internal devaluation, given the fixity of the exchange rate. The amount of financial support and the scope of the adjustment plans have varied, depending on the country and the scale of the imbalances to be addressed. The programme with Greece, negotiated in May 2010 and expanded in March 2012, has been the largest in relative terms, with the loans granted representing 116% of GDP for the duration of the programme (Table 1.1).

To date, success with this strategy has been mixed, depending on the country. Latvia and Ireland made greatest progress in reducing imbalances and have regained access to international financial markets. Greece has achieved the largest fiscal consolidation, with total and primary government deficits falling by more than 9 percentage points of GDP over the three years to 2012 (Figure 1.1). The fiscal consolidation, which has gone hand-in-hand with adjustment of the external balance, has however been accompanied by a sharp drop in activity, as the programme continuously underestimated the contraction of production. Between 2010 and 2012, annual real growth in Greece has been almost 3 percentage points below OECD and Troika forecasts on average, while nominal GDP growth was 3½ percentage points lower (Table 1.2). Output also declined more than in other programme countries. In early 2013, GDP was one quarter below its early 2008 level in sharp contrast to the 10% or less in the other countries (Figure 1.2). At purchasing power parity, Greek GDP per capita in 2012 had fallen almost to its level in 2002. This decline is even greater when measured against the European Union average: between 2009 and 2012, Greek income per capita fell from 96% to 75% of the average, below its level in 1995 (Figure 1.2)

Table 1.2. **Official GDP projections and outcomes for Greece**[1]

	Real GDP		Nominal GDP	
	Official projections	Outcomes	Official projections	Outcomes
2010	-4.0	-4.9	-2.8	-3.9
2011	-3.0	-7.1	-1.5	-6.1
2012	-3.0	-6.4	-2.8	-7.2
2013	-4.2	-3.8[2]	-5.4	-5.9[2]
2014	0.6	-0.4[2]	0.2	-2.3[2]

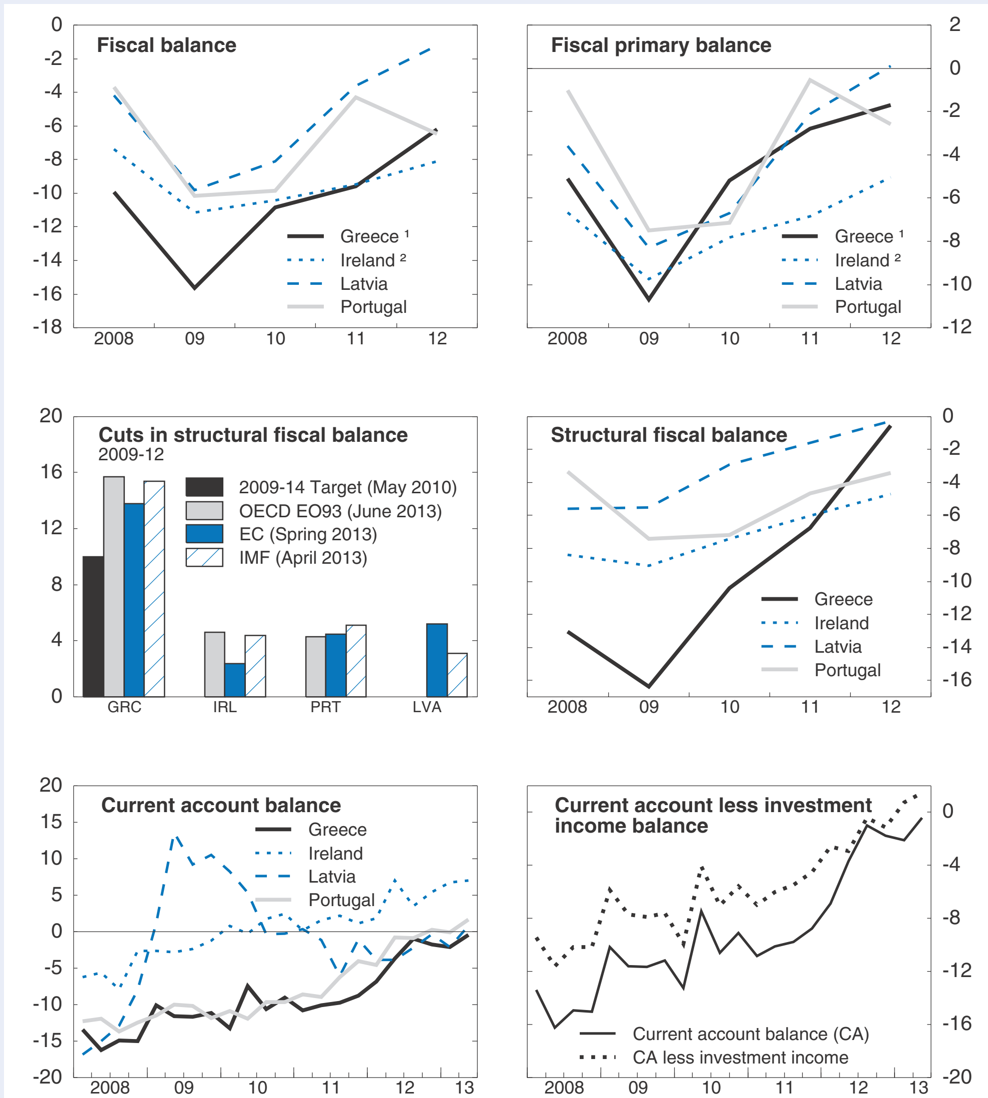
1. For 2010 and 2014, the May and June IMF projections, as released in their quarterly report on Greece are used. For 2011, 2012 and 2013, the December IMF projections released in these quarterly reports are used.
2. OECD projections.

Source: OECD, *OECD Economic Outlook 94 database*; Consensus forecast; IMF programme quarterly reports on Greece.

Box 1.1. **The Greek adjustment programme in perspective** *(cont.)*

Figure 1.1. **The reduction of fiscal and external deficits**

As a percentage of GDP



1. Data for Greece do not include the one-off capital transfers of 2.8% made by the general government in 2012 through the Hellenic Financial Stability Fund, as a result of banks' resolution.
2. Excluding the bank recapitalisation amounts.

Source: Irish Department of Finance; EC, European Economic Forecast, Spring 2013; IMF, World Economic Outlook, April 2013; OECD, *OECD Economic Outlook database.*

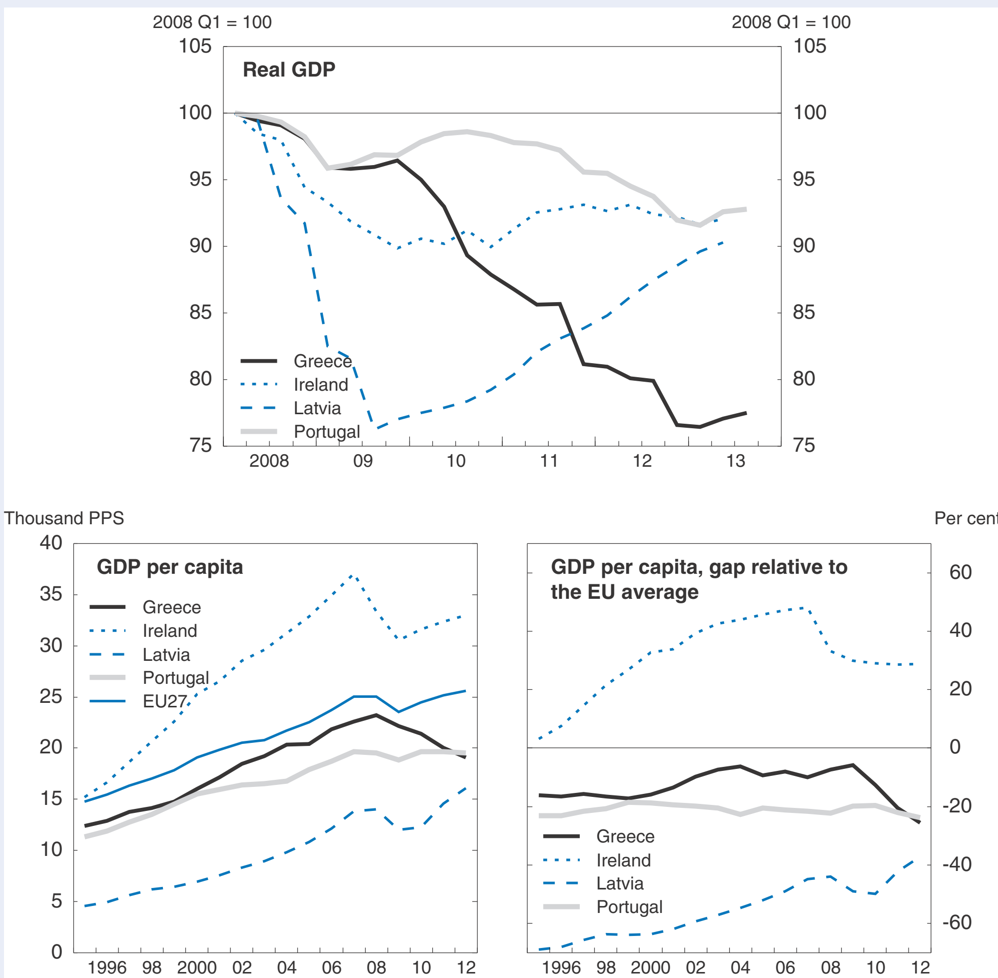
StatLink http://dx.doi.org/10.1787/888932957935

Box 1.1. **The Greek adjustment programme in perspective** *(cont.)*

The weak growth led to a deterioration in the public debt-to-GDP ratio far beyond initial projections. Under the May 2010 adjustment programme, the public debt-to-GDP ratio was expected to rise by 35 percentage points of GDP to 150% of GDP by 2012 (Figure 1.3). Without debt relief it would have reached 210% of GDP in 2013. It actually rose to about 175% of GDP. The slippage reflects mostly the collapse of growth with only one-sixth of the rise due to worse-than-expected fiscal deficits. Public debt at around 175% in 2013 is way above that in the other programme countries and likely to remain a drag on growth (Elmeskov and Sutherland, 2012; Égert, 2012).

Figure 1.2. **Real GDP and per capita GDP trends**

In purchasing power standard



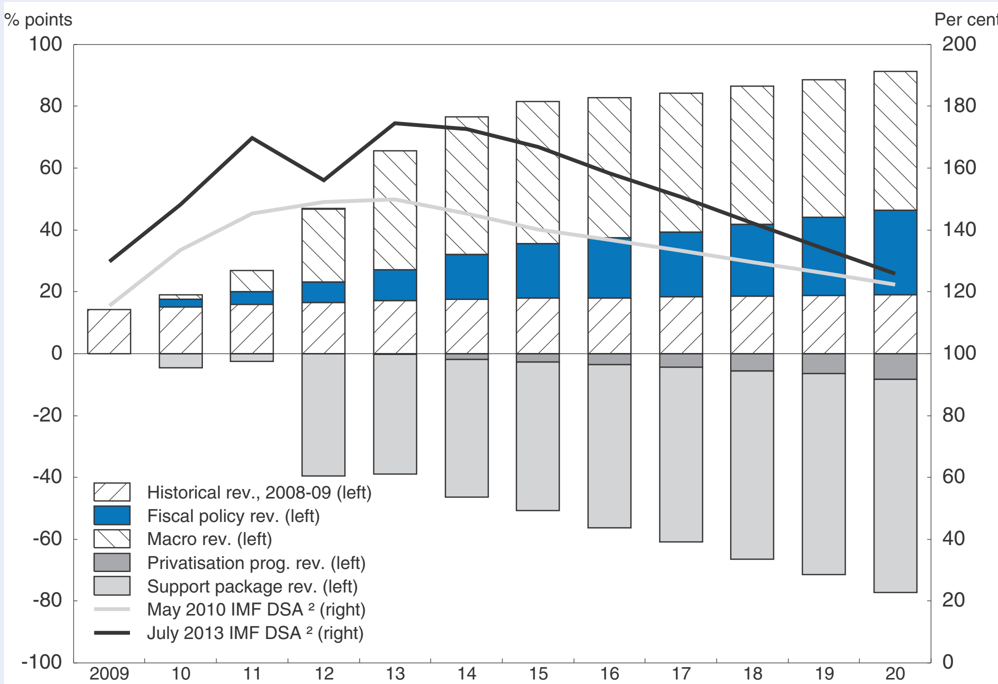
Source: Eurostat and OECD, *OECD Economic Outlook database*.

StatLink http://dx.doi.org/10.1787/888932957954

Box 1.1. **The Greek adjustment programme in perspective** *(cont.)*

Figure 1.3. **Revisions to public debt projections between May 2010 and July 2013**[1]

Debt-to-GDP ratio



1. This figure shows the change in the debt projections between May 2010 (grey curve) and July 2013 (black curve). The bars show the components of the changes. For example, in 2013, the debt projection is revised upward by 24.5 percentage points of GDP (i.e. from 149.9 to 174.4% of GDP). This amount reflects *1)* historical revision (17.1%), *2)* fiscal policy change (9.9%), *3)* revision to the macroeconomic projections (38.5%), *4)* revision to the privatisation programmes (-0.3%) and 5) adjustment to the international support package, including the restructuring impact of the PSI (-38.6%).
2. DSA = Debt sustainability analysis.

Source: OECD calculation based on IMF debt sustainability analysis.

StatLink http://dx.doi.org/10.1787/888932957973

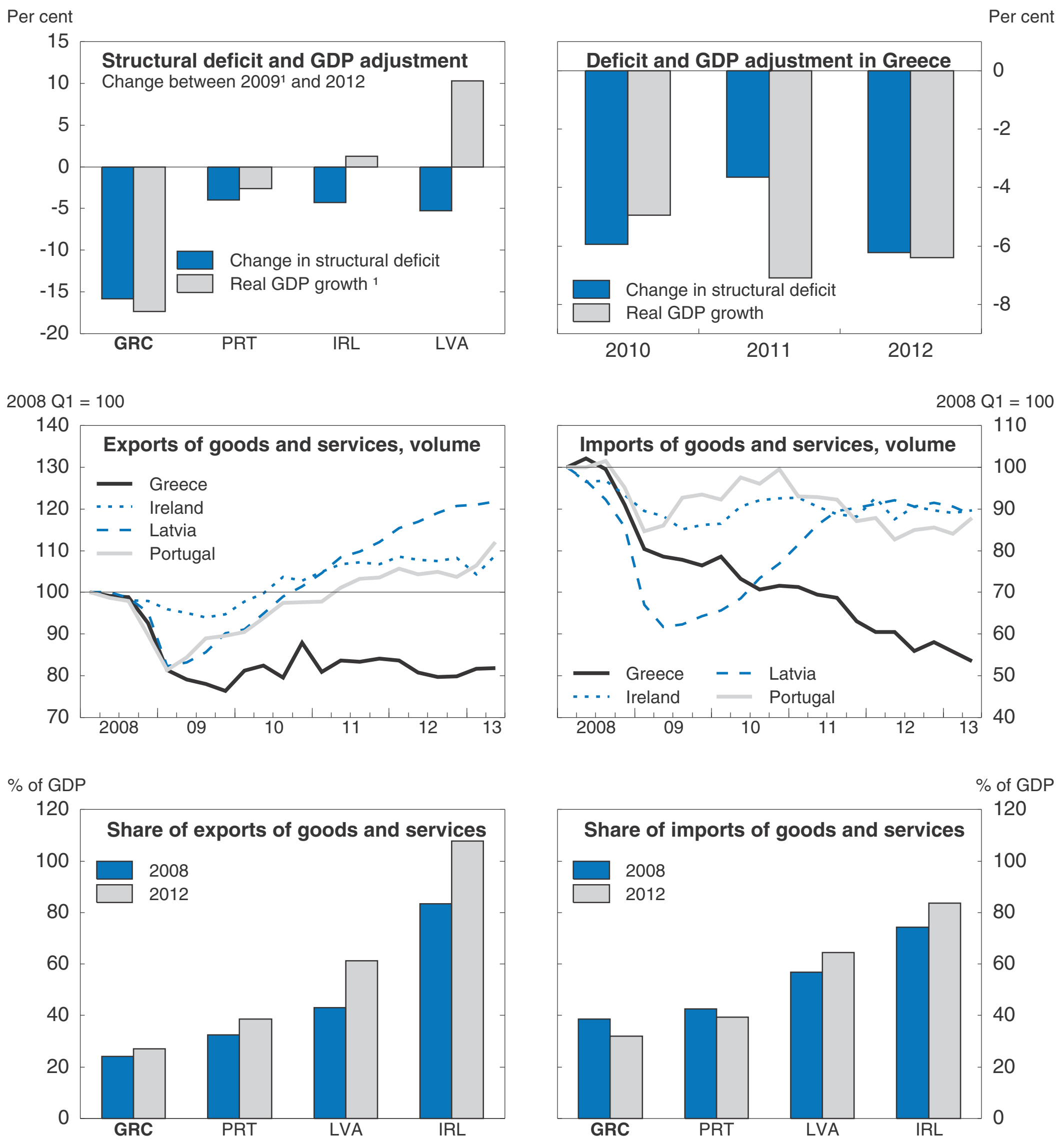
Several obstacles have held back growth

The stronger-than-planned impact of fiscal tightening

The initial and subsequent programmes underestimated the restrictive impact of consolidation on economic activity by a large margin (IMF, 2013a). The cumulative decline in real GDP between the beginning of 2009 and 2012 was 1.2 times the structural budget deficit reduction during this period (Figure 1.4). Estimates of the fiscal multiplier are now above 1 in Greece, slightly above the average in OECD countries and higher than the 0.5 assumed in the design of the adjustment programme (Blanchard and Leigh, 2013). Recent studies have revealed much higher multipliers during recessions than in periods of growth, particularly in the context of financial crises (Auerbarch and Gorodnichenko, 2012).

With external trade (i.e. imports plus exports average) at only 30% of output, fiscal multipliers are higher than in the more open Portugal, Latvia or Ireland, with trade at 40% and 80% or more of GDP (Figure 1.4). Moreover, in contrast to those countries, Greek export volumes of goods and services have barely recovered since the onset of the crisis. In

Figure 1.4. **Fiscal tightening and macroeconomic developments**



1. 2008 for Latvia. Cumulative change for the GDP.
Source: Eurostat; EC, *European Economic Forecast*, Spring 2013; OECD, *OECD Economic Outlook database*.

StatLink http://dx.doi.org/10.1787/888932957992

early 2013 they were still 20% less than their early 2008 level and thus did very little to cushion the effect of fiscal restraint on domestic demand. Financial conditions in Greece also exacerbated the recessionary impact of fiscal policy, reducing the stimulative effect of very supportive ECB monetary stance (see below). This liquidity crunch increased the generally weaker multiplier effects associated with tax increases and cuts to social transfers and salaries between 2009 and 2012 (OECD, 2011a). The liquidity problem has been accentuated by large government payment arrears to the private sector, which stood at 4½ per cent of GDP at end-2012.

The fiscal consolidation in Greece has been much larger than in the other programme countries. The Greek structural deficit was reduced by an estimated close to 14 percentage points of GDP between 2009 and 2012, much more than in Ireland, Latvia or Portugal

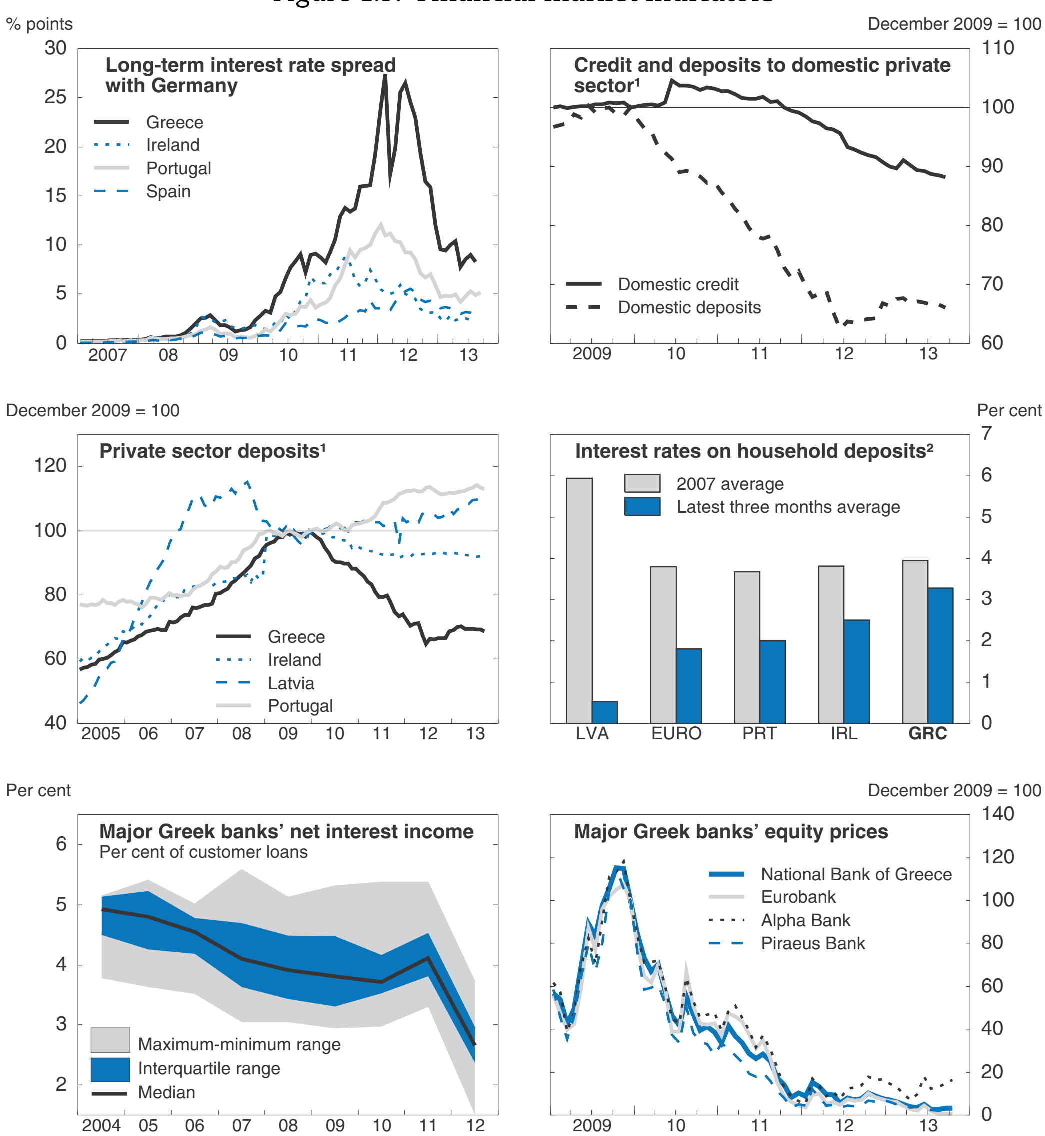
(Figure 1.1). Moreover, the reduction in the structural deficit between 2009 and 2012 exceeded by nearly 50% the adjustment that had been planned between 2009 and 2014 in the initial May 2010 adjustment programme.

Growth is also held back by financial conditions

The sovereign debt crisis hit the banking sector hard

Although the banking sector was relatively solid at the end of the last decade (OECD, 2011a), its heavy exposure to Greek government bonds (GGBs) along with the recession left it in poor shape. Banks' funding conditions tightened as they were cut off from international capital markets with the rise in sovereign risk and risk premium on long-term interest rates (Figure 1.5). They lost 37% of domestic private deposits (EUR 87 billion)

Figure 1.5. **Financial market indicators**



1. Private sector includes non-financial corporations and households.
2. Deposits with agreed maturity of up to one year, except for Ireland (up to 2 years).

Source: Bank of Greece; Datastream; ECB, *Money, Banking and Financial Markets database*; OECD, *OECD Economic Outlook database*.

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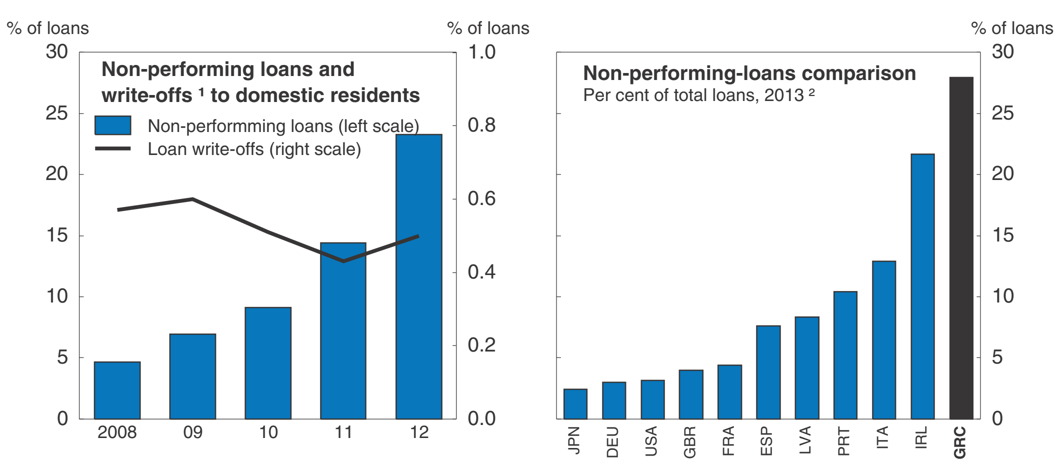
between 2009 and mid-2012 due to concerns about the participation of Greece in the euro area, and the sharp reduction in incomes and rise in unemployment. With no access to money markets, Greek banks bridged their funding gap by resorting to central bank liquidity from the Eurosystem, which reached EUR 100 billion in 2011 (IMF, 2013b).

In early 2012 banks suffered substantial losses (EUR 37.7 billion) from their heavy exposure to Greek sovereign debt, which was restructured under the internationally agreed so-called Private Sector Involvement (PSI). This eroded their capital base leading to a breach of the minimum capital ratios required by the Eurosystem and therefore to a cut-off from the standard liquidity facility. Banks had to resort to Emergency Liquidity Assistance (ELA) at a rate of an extra 2% above the regular Eurosystem funding rate. This raised their funding costs by more than EUR 2 billion per annum. The funding difficulties intensified competition for customer deposits among banks, raising deposit interest rates and reducing banks' net interest income (Figure 1.5). All in all, banks mostly relied on central bank liquidity to finance their loan books, but credit quality has kept on deteriorating with the deepening recession undermining the value of their collateral.

Rising unemployment and shrinking disposable incomes mean that an increasing number of borrowers are unable to service their debts. According to the Hellenic Bank Association, almost two-thirds of a million of loans (mortgages, consumer and credit card) were restructured up to the second quarter of 2012, totalling more than EUR 18 billion (HBA, 2013). More than 50 000 households have had recourse to legislative provisions for over-indebted households. Non-performing loans (NPLs, excluding restructured loans) increased from 16% at end-2011 to 29 % of total loans in the first semester of 2013, with 60% of these NPLs attributed to the corporate sector (EC, 2013a) (Figure 1.6). This is higher than in the other programme countries. Large firms' financial position has however been less affected than the SMEs, which are more exposed to the falling domestic demand. Major Greek financial institutions lost more than 90% of their market capitalisation since the crisis begun (Figure 1.5).

Figure 1.6. **Non-performing loans**



1. Write-offs expressed as annual flows; non-performing loans include restructured loans.
2. Or latest available data.

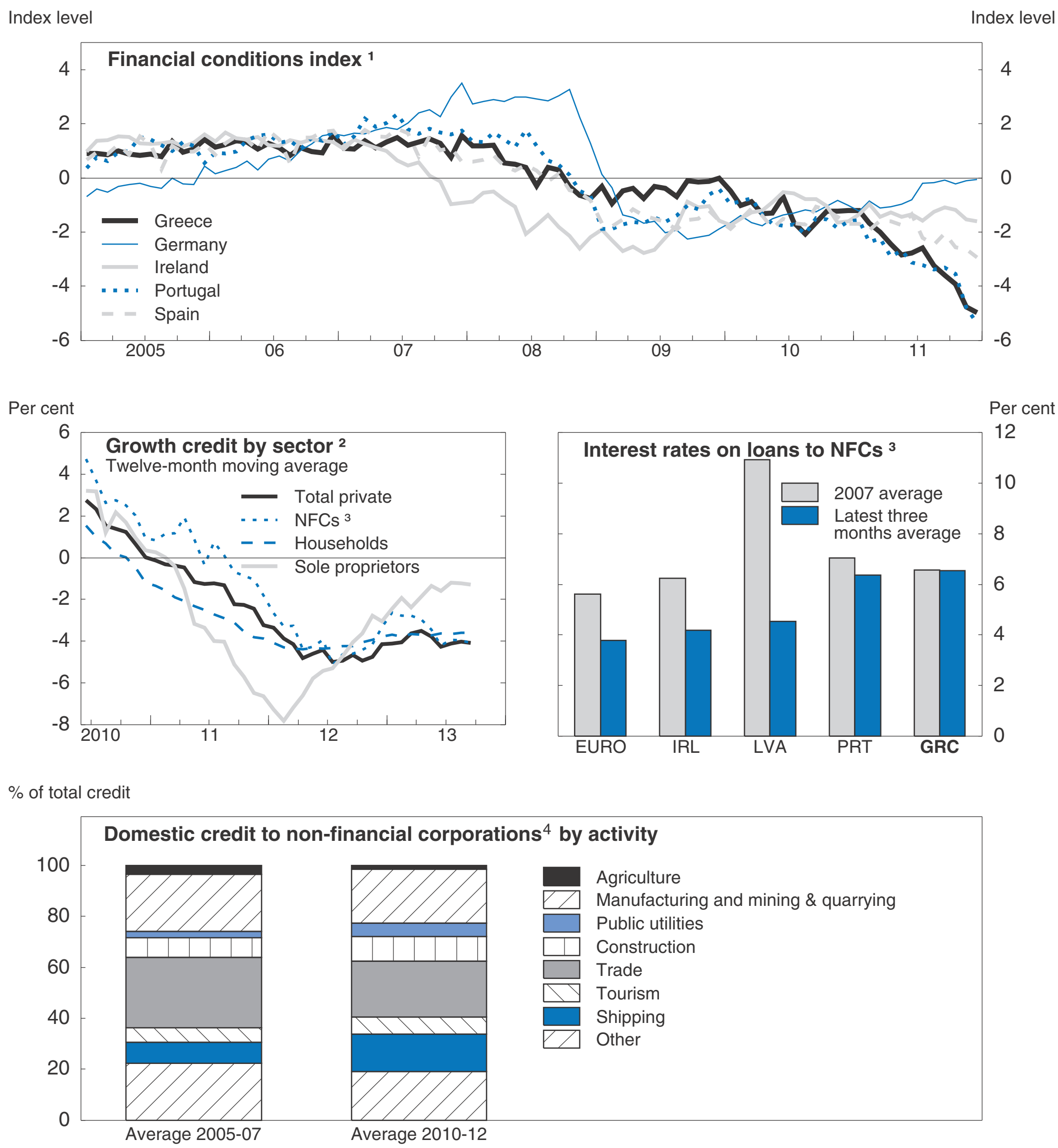
Source: Bank of Greece and IMF, *Financial Soundness Indicators* database.

StatLink http://dx.doi.org/10.1787/888932958030

The resulting bank deleveraging has worsened credit conditions

The financial condition index (FCI) has tightened since 2009 in Southern European countries, and particularly in Greece (Figure 1.7) (Angelopoulou et al., 2012). The stock of credit to both households and the business sector, which has been falling since mid-2010, continued to contract in 2012 and early 2013. While this decline has recently decelerated slightly, credit contraction continues to be pronounced. Moreover, there are few signs of substantial changes in the allocation of credit towards the export-oriented sectors since 2010 (Figure 1.7).

Figure 1.7. **Credit to the private sector and financial conditions index**



1. Based on principal components analysis, including monetary policy variables. For more details, see *Source*.
2. Growth rates are derived from the differences in outstanding amounts corrected for loan write-offs, exchange rate valuations and reclassifications.
3. Non-financial corporations.
4. Credit provided by domestic monetary financial institutions (MFIs) excluding the Bank of Greece.

Source: Bank of Greece; Datastream; ECB, *Money, Banking and Financial Markets database*; Angelopoulou, E., H. Balfoussia and H. Gibson (2012), "Building a Financial Conditions Index for the Euro Area and Selected Euro Area Countries: What Does It Tell Us About the Crisis?", *Bank of Greece Working Papers*, No. 147.

StatLink http://dx.doi.org/10.1787/888932958049

Bank lending contraction partly reflects lower demand for loans. Key drivers include the decline in consumption and the uncertainty about production and investments prospects. The demand for mortgages was particularly affected by the decrease in households' disposable income, the decline in residential real estate prices and rents, and the increase in property taxes. Interest rate developments have also contributed. Higher costs of funding have translated into higher costs of credit for businesses than in most other euro countries. Quantity rationing has also been important as revealed by various surveys of lenders and of borrowers.

Banks seem to have constrained new lending to save on scarce liquidity and capital. They have also become more concerned about the quality of their lending during the prolonged economic recession in view of increased credit risks and rising number of non-performing loans. Recent ECB SAFE surveys indicate that SMEs faced stronger quantitative supply restrictions in Greece than in other euro area countries. The percentage of rejected applications for bank loans, at 31% in October 2012-March 2013, was higher than in Ireland or Portugal (respectively 17% and 9%) and well above the euro area average (11%).

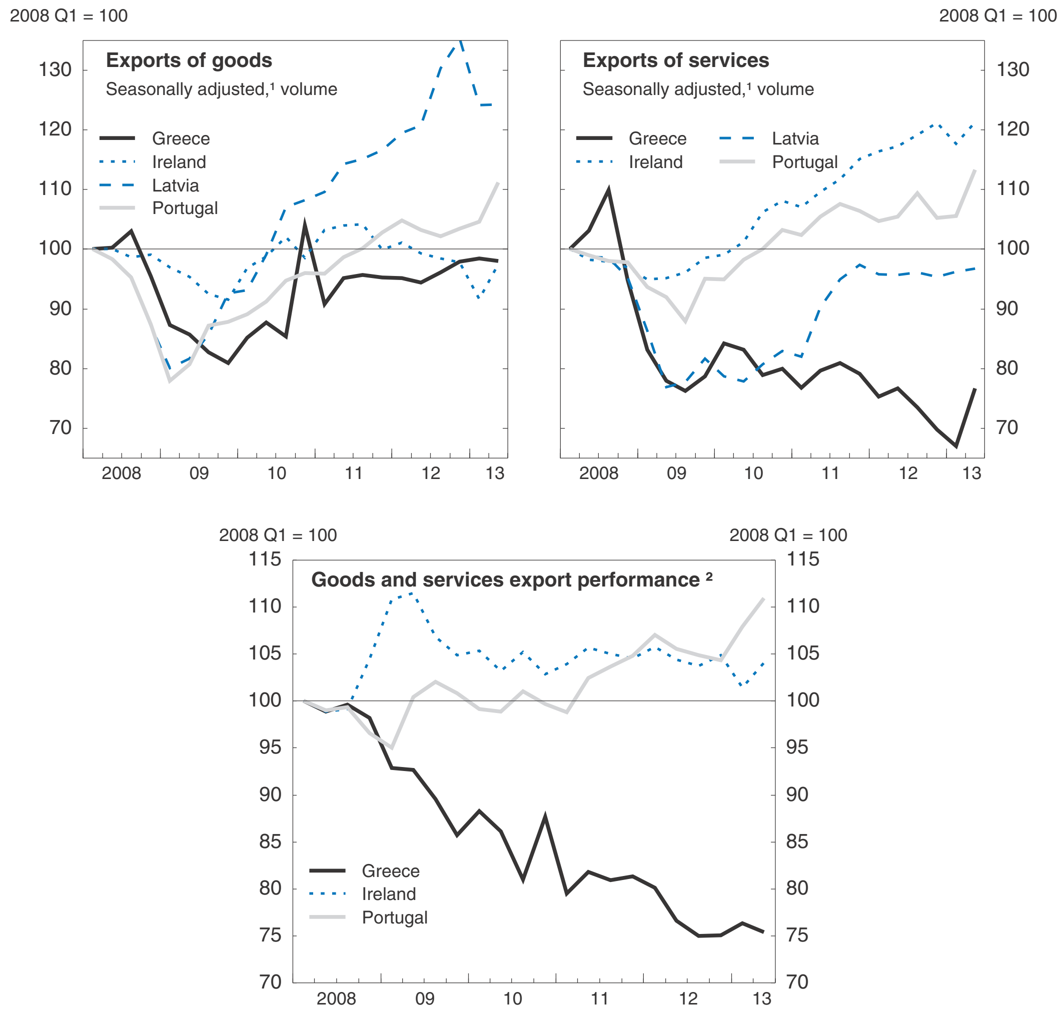
The funding constraint for SMEs has been particularly harmful because of their predominance in the economy and reliance on bank loans as the most attractive and widely available source of external finance. Insufficient bank credit supply in response to demand thus seems to have significantly affected current production and contributed to the decline in investment. Such a trend, which is unsurprising given the substantial deterioration of the private sector's balance sheets, has been compounded, in the case of credit to households, by moral hazard linked to an inadequate insolvency framework.

Progress in boosting exports and competitiveness has been insufficient

Weak exports of goods and services have been an important brake on growth. This reflects the sluggishness of international demand but also persistent problems of Greek competitiveness. Since the beginning of 2008, Greek export market shares have shrunk, in contrast to Ireland or Portugal, even though exports of goods, especially to non-EU markets have improved since 2009 (Figure 1.8). Although exports of goods reached a historic peak in 2012, the level is still low in comparison to other European countries and further improvement is needed to reach both the EU average level of goods export share in GDP and to support sustainable growth. These poor results from external trade since the beginning of the crisis have mostly reflected weak service exports (which represent more than half of total exports) partly because of specific temporary factors. For instance, earnings from maritime transport, where the country has a comparative advantage, have been hurt by the slow pace of international trade and global oversupply in the shipping sector since 2010. Moreover, tourism revenues were depressed by the political uncertainties and social tensions gripping the country in 2012. More efforts are also needed to make Greece more attractive for foreign direct investment which tends to facilitate access to international value-added networks (Figure 1.9).

Flexible product markets are indispensable for fostering knowledge-based investment and broadening the country's exportable production base (Andrews and Criscuolo, 2013) (Figure 1.10). Knowledge-based investment remains low in Greece, thereby holding back efforts to move into "higher-end" exports to counter competition from low-cost emerging countries. The problems of resource allocation were already particularly acute before the crisis. The most productive firms in the manufacturing sector did not account for the greatest share of sectoral employment in contrast to the average of other OECD countries.

Figure 1.8. **Export performance**



1. Seasonally adjusted by OECD Secretariat.
2. The export performance measures the gain (increase) or loss (decrease) in export market share.
Source: Eurostat and OECD, *OECD Economic Outlook database.*

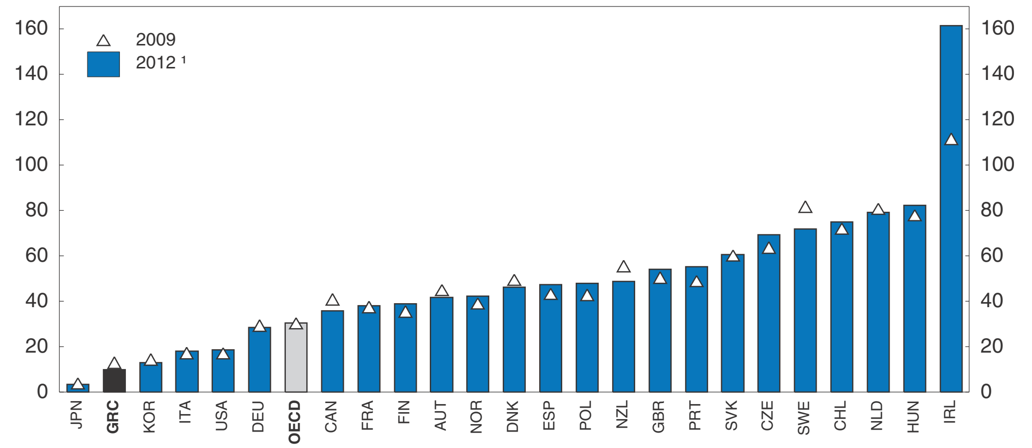
StatLink http://dx.doi.org/10.1787/888932958068

The trend of average productivity for the economy since 2008 also suggests that there is still significant room for improving efficiency, although this declining performance partly reflects the impact of the recession after a period of relatively rapid productivity catch-up. However, anecdotal evidence suggests that, over the last two years, Greek companies tend to strategically focus more towards exports with a growing number of firms becoming export-oriented. Also, there seems to be more focus on competitive products from young and innovative entrepreneurs either in traditional sectors such as organic agricultural goods or in other areas such as pharmaceutical and ITC.

The sharp rise in unemployment and the thorough overhaul of the labour market (see below), has sharply lowered labour costs since the onset of the crisis. Indeed, the cumulative losses in the labour cost competitiveness between 2000 and 2009 had been fully reversed by the end of 2012 (Figure 1.11). Yet prices have not adjusted sufficiently

Figure 1.9. **Foreign direct investment**

Inward position at year-end, as a percentage of GDP



1. Or latest available data.

Source: OECD, *Foreign Direct Investment Statistics database.*

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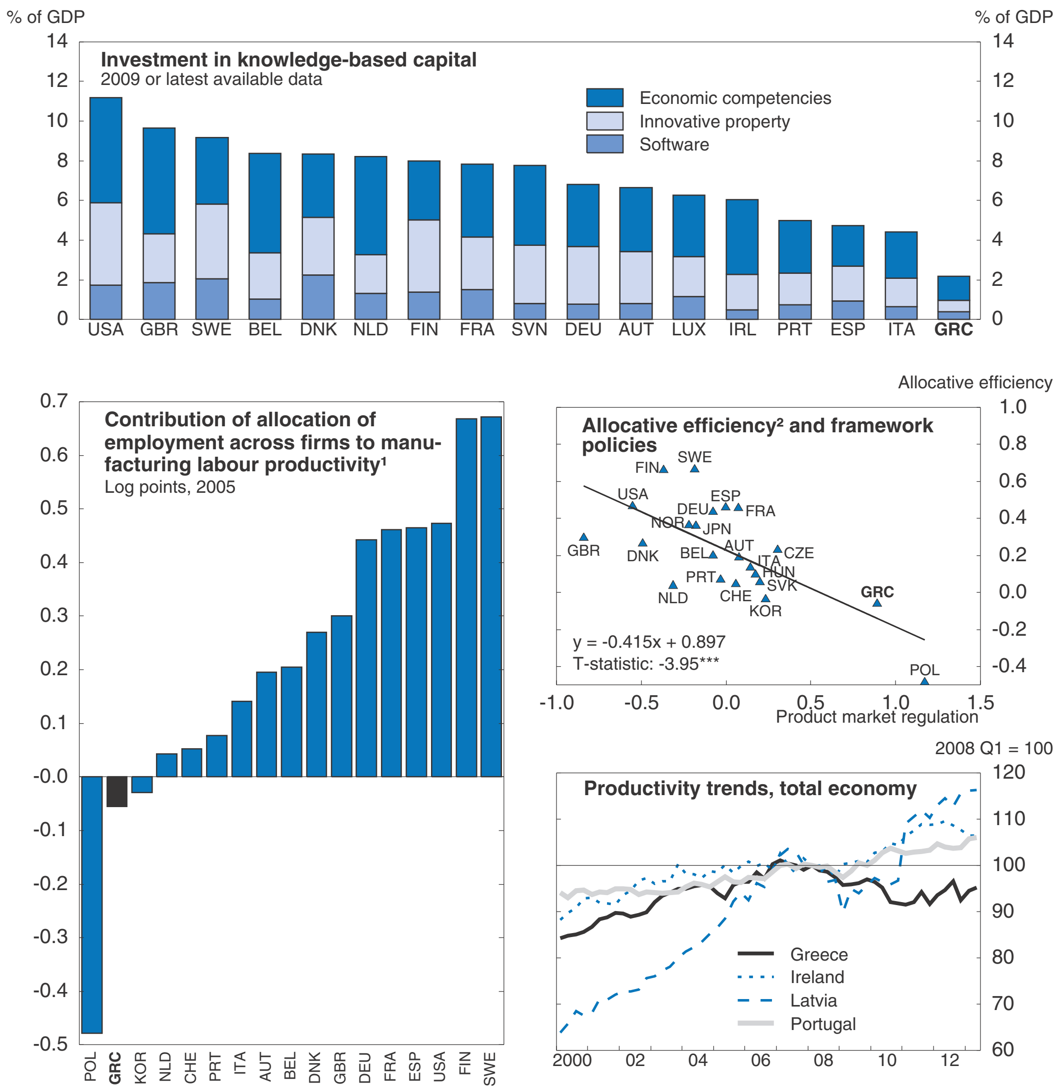
downwards suggesting that lags in product market reform are maintaining rigid market structures (see below) although prices of non-tradable relative to tradable products have fallen since 2010. The impact of lower labour costs on supply and on exports is partly held back by falling investment and weak demand in Greece.

Greek firms are handicapped by their poor price competitiveness

Price competitiveness is important for Greek exports that concentrate in low-tech products. At the end of the last decade, high-tech or intermediate-tech products represented only 28% of total exports, compared to 40% for Portugal and nearly 50% for the EU and OECD average. Despite encouraging trends towards more high-tech products, recent OECD analysis suggests that the price elasticity of Greek exports of goods and services is higher than in Portugal, Ireland and on average in OECD countries (Schwellnus et al., 2013). Greece entered the euro area with an overvalued exchange rate (Anastasatos, 2008), and the drift in prices since then adjusted for productivity has not been corrected. The gap between relative export prices and relative labour costs has also widened compared to other programme countries (Figure 1.12). As a result, the real effective exchange rate based on prices is probably overvalued although the estimates vary across studies and is subject to large uncertainties.

According to OECD indicators, the CPI-based real effective exchange rate (REER) increased by almost 20% between 2000 and 2011. This reflects to a large extent the cumulative differential between the Greek and euro area GDP deflator and CPI inflation, which reached respectively 12¼ and 14½ percentage points between 2000 and 2011. Export-deflator-based REER also increased by 35% over this period, although this latter development probably overestimates the size of the loss of price competitiveness. Moreover, as previously mentioned, Greece entered the euro area with a high real effective exchange rate. The current-account deficit, which had climbed to 7% of GDP at the time of Greece's entry into the euro area, was already a sign of a lack of competitiveness, due in part to the "strong drachma"-based disinflation policy adopted in the mid-1990s, which

Figure 1.10. **Investment in knowledge-based capital and employment allocation in the manufacturing sector**



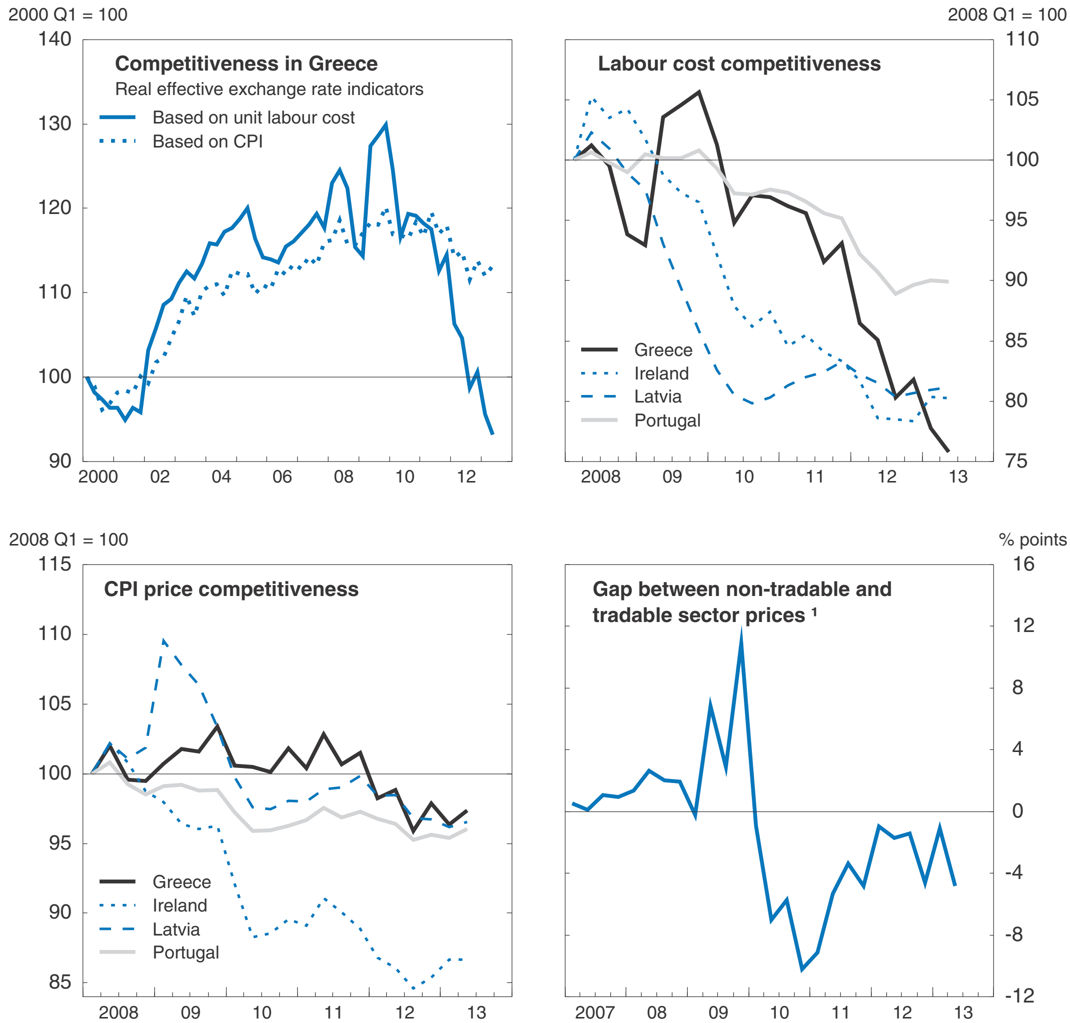
1. The estimates show the extent to which firms with higher than average labour productivity have larger employment shares in the manufacturing sector, based on the Olley and Pakes (1996) decomposition. Labour is allocated relatively efficiently in the United States where manufacturing productivity is boosted by around 50% due to the rational allocation of resources.
2. Allocative efficiency measures the contribution of allocation of employment across firms to manufacturing labour productivity. PMR refers to the overall index from the OECD PMR of 2003.

Source: Andrews, D. and C. Criscuolo (2013), "Knowledge-Based Capital, Innovation and Resource Allocation", *OECD Economics Department Working Papers*, No. 1046; Eurostat and OECD, *OECD Economic Outlook* database.

StatLink http://dx.doi.org/10.1787/888932958106

was only partially offset by the final devaluation of the Greek currency in March 1998 before EMU participation (OECD, 2011a; Anastasatos, 2008). Overall, according to the OECD, this suggests that the size of overvaluation of price-based REER at end-2011 was probably of the order of 20%. This is however significantly higher that the most recent IMF estimates, which put the overvaluation of the CPI-based real effective exchange rate at only 10% (IMF, 2013c).

Figure 1.11. **Price and cost competitiveness**



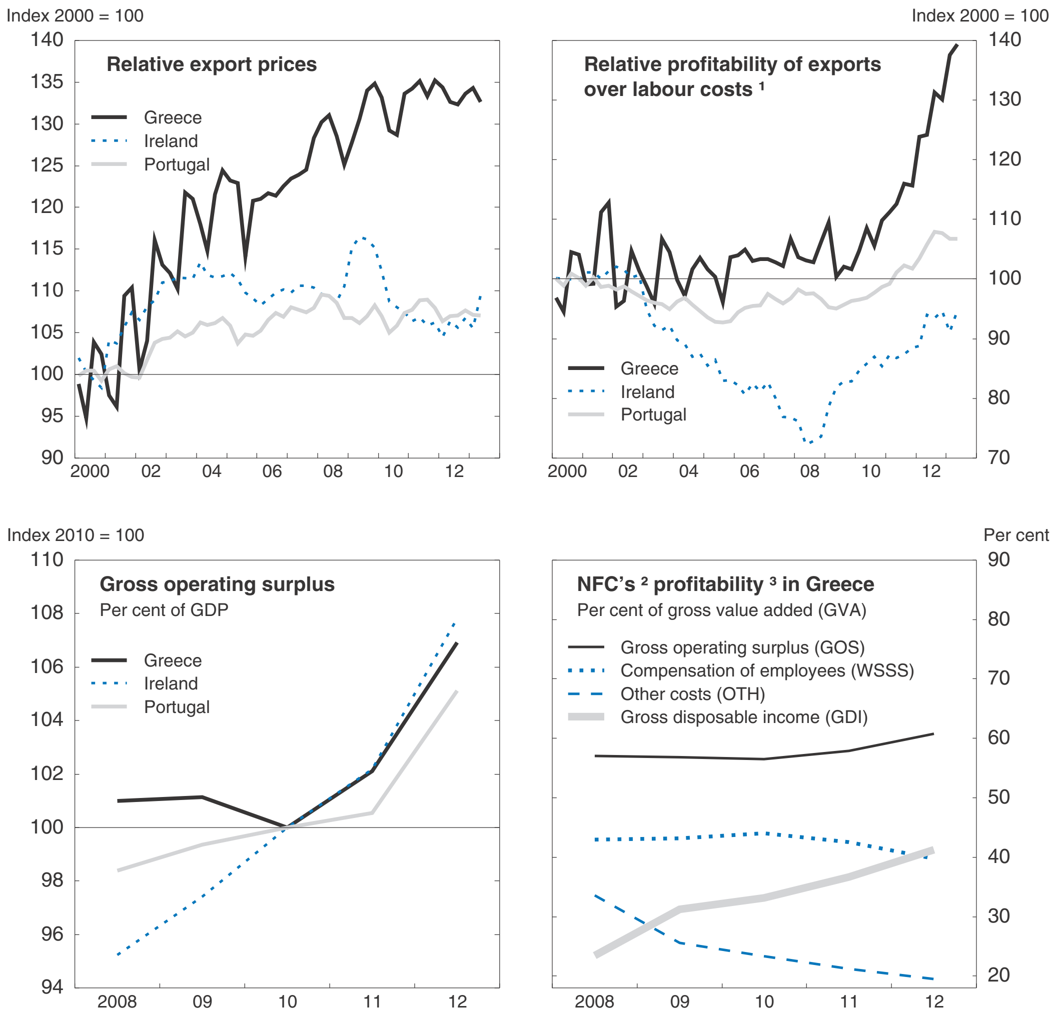
Year-on-year percentage changes of the price index of each branch in the sector weighted by its gross value added in the sector. The series shown is the gap between the synthetic non-tradable sector price and the tradable one.
Source: Eurostat; OECD, *OECD Economic Outlook database.*

StatLink http://dx.doi.org/10.1787/888932958125

The lack of price adjustment compared to wages and labour costs partly reflects higher indirect taxes and public service charges associated to the fiscal consolidation. Overall, indirect tax increases pushed up consumer-price inflation cumulatively by 6¼ percentage points between 2010 and 2012 and by as much as 9½ percentage points if public-service tariff increases were included (Figure 1.13). For example, the standard and reduced value added tax (VAT) rates have risen by 4 percentage points, to 23% and 13% respectively since 2010, and its coverage increased to include legal services and fruit products sold in markets. The excise taxes on tobacco and oil products, including heating oil, have risen steeply, while many public tariffs have been raised, as in urban transport and electricity, to restore the financial health of public enterprises.

Prices also tend to adjust with lags to changes in wages and salaries (Figure 1.12), and those lags in Greece could be longer because of the dominance of small firms (SMEs) (NBG, 2012a). Around 60% of business turnover is in the hands of SMEs in Greece, versus

Figure 1.12. **Profit margins**



1. Defined as the ratio of relative export prices over relative unit labour costs.
2. NFC = Non-financial corporations.
3. GDI = GOS – OTH, where OTH represents the sum of property income, direct taxes, social contributions and current transfers. GOS = GVA – WSSS – (TIND-TSUB), where TIND is the indirect tax and TSUB is subsidies.

Source: Eurostat; OECD, *Quarterly National Accounts and OECD Economic Outlook databases.*

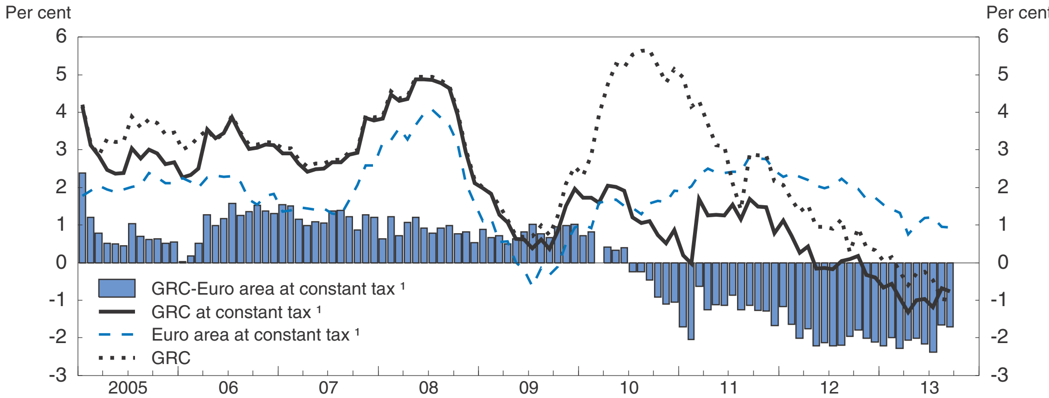
StatLink http://dx.doi.org/10.1787/888932958144

40% for the European average, and Greek SMEs are less than half the size of the typical European SMEs. The growing weight of fixed costs, which did not fall in contrast to the labour costs since the onset of the crisis, is affecting more the earnings performance and capacity to adjust margins of SMEs than big firms with economies of scale (NBG, 2012b).

The slow pace and limited price adjustment also reflects persistent rigidities in product markets. Structural reforms in this area have so far been less swift and ambitious than those on the labour market (see below). Internal devaluation does not automatically lead to changes in relative prices favouring the development of the tradable goods and export sectors as in the case of traditional devaluation. Well-functioning product markets are thus essential for ensuring that labour cost adjustments are reflected in prices in the case of Greece's adjustment programme.

Figure 1.13. **Inflation**

Year-on-year growth rate of the harmonised consumer price index



1. HICP at constant tax rates mean indices that measure changes in consumer prices without the impact of changes in rates of taxes on products over the same period of time.

Source: Datastream.

StatLink http://dx.doi.org/10.1787/888932958163

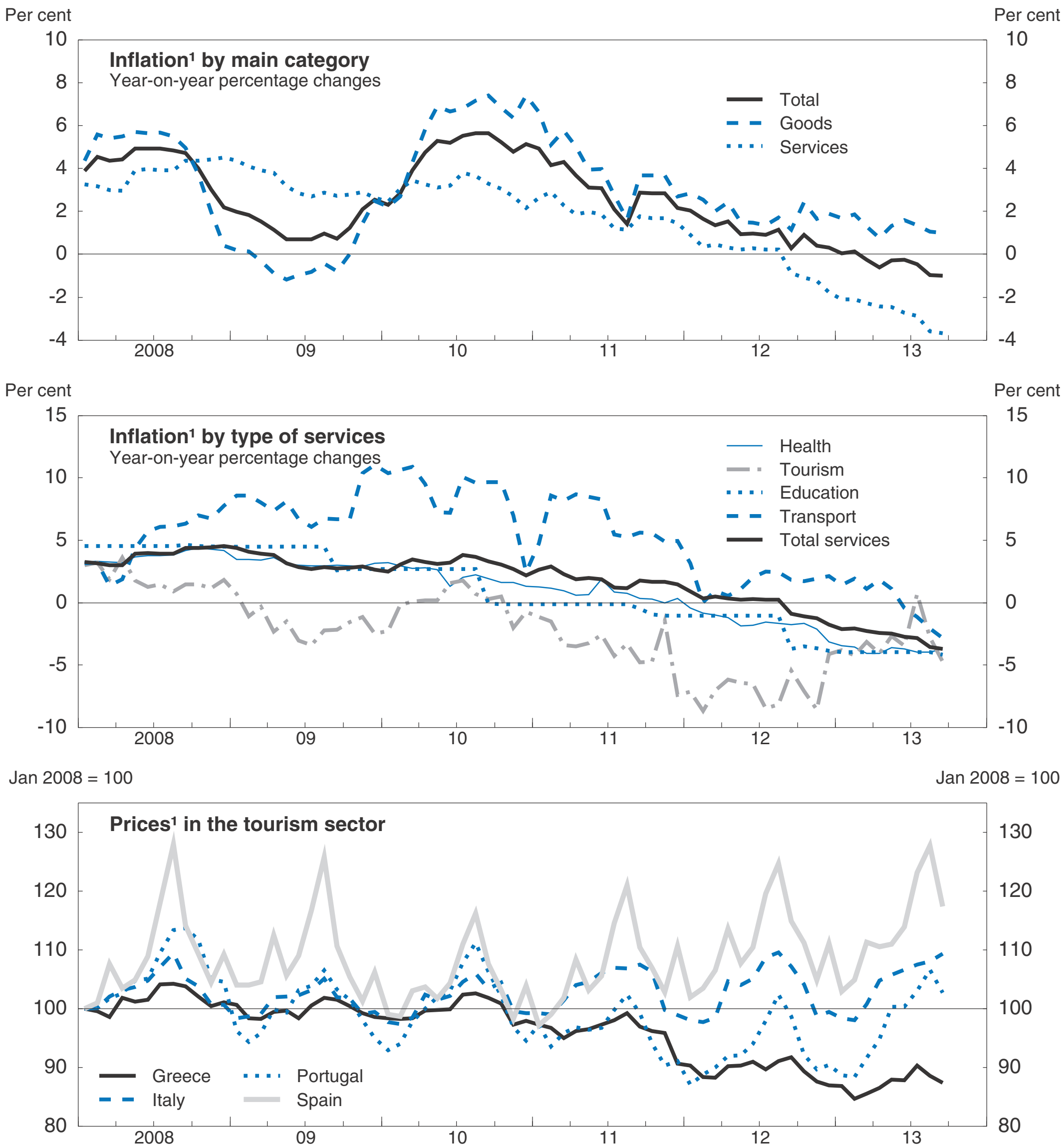
Unfavourable macroeconomic conditions and the lack of liquidity in the economy are impeding the entry of new players in the liberalised sectors and are making it difficult to foster competitive pressures effectively and force price adjustments. Moreover, non-labour cost are rising as the result of difficult and expensive access to bank credit, cutback in credit from suppliers, longer waiting times for VAT refunds, and frequent delays in payment by customers, in particular the State.

Nevertheless, price adjustment has gradually strengthened. Inflation in Greece, measured at constant tax rates, was about 1 percentage point a year higher than the euro area average before the crisis, but has been lower since 2010. The differential widened to more than 2 percentage points at the beginning of 2013 (Figure 1.13). The decline in prices has been more pronounced for services than for goods, reflecting in part, the higher share of labour costs in many services (Figure 1.14). For example, despite the increase in indirect taxes, prices in the tourism sector have fallen more sharply in Greece than in other euro area Mediterranean countries. Prices of some services to businesses have also declined, albeit to a limited extent, under the combined impact of lower costs, falling demand, and the liberalisation of certain sectors (see below).

Uncertainties over implementation of the adjustment programme have affected confidence

Recent IMF studies suggest that recessions accompanied by strong uncertainty shocks are more severe and last longer than other recessions (IMF, 2012). In Greece, consumer morale and expectations for the performance of the economy reached their lowest levels since the surveys were first conducted. The problems of confidence have also been more severe than in other programme countries since 2010 (Figure 1.15). Stock market trends, long-term interest rate gaps and indicators of volatility in stock market returns highlight the uncertainty crisis (Figure 1.16). The deterioration in confidence discourages investment and purchases of durable goods because households and businesses tend to put off these costly outlays, which are difficult to reverse, until the economic situation becomes clearer (Bloom, 2009; Haddow and Hare, 2013). Activity is also affected by the adverse impact of uncertainty on the supply side via the credit channel. Uncertainties tend to reduce the

Figure 1.14. **Selected price developments**



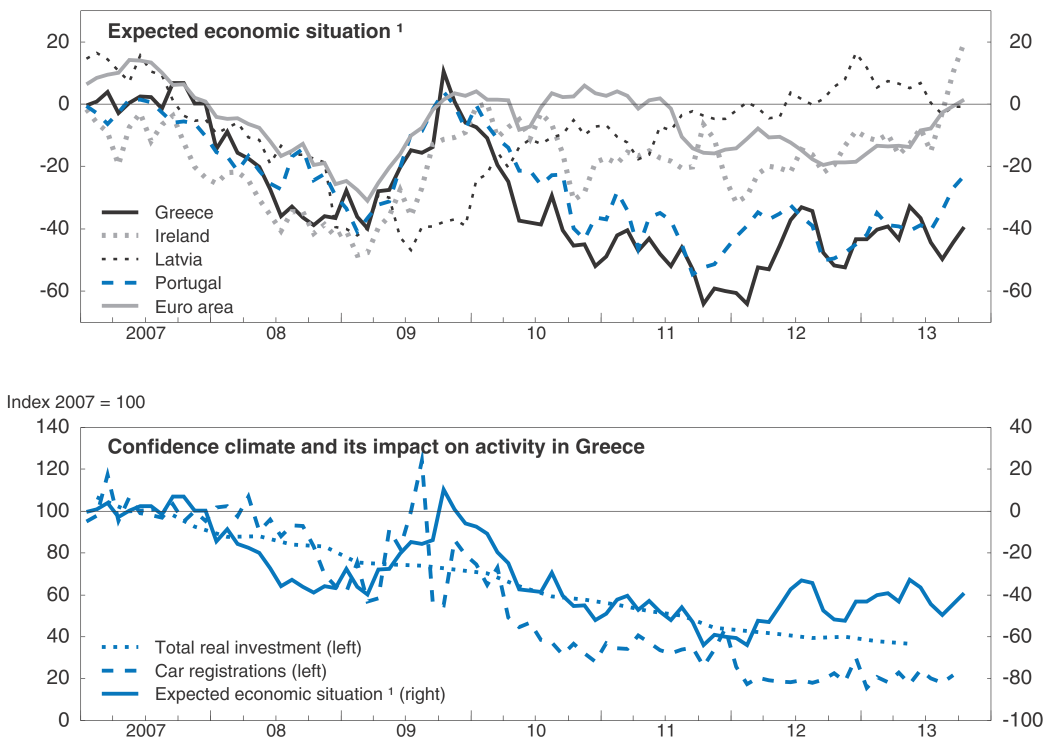
1. Represented by the harmonised consumer price index.
Source: Eurostat.

StatLink http://dx.doi.org/10.1787/888932958182

expected return on projects, making it more difficult for banks to evaluate the collateral, pushing risk premiums up and limiting credit supply. Uncertainty also contributed to a decline in bank deposits up to mid-2012, reinforcing caution in lending. Dwindling confidence in Greece is likely to have impacted growth, as can be seen for example by the sharp contraction in investment and car sales (Figure 1.15 and 1.17).

The rise in uncertainties in Greece reflects the long recession, contagion from international turbulence, and country specific shocks. As shown in (Schneider and Giorno, 2013), the recession (measured by the output gap) has had a larger impact on uncertainty (measured as volatility of economic expectations) in Greece than in other programme countries since 2010 (Figure 1.18). Greece also seems less affected by contagion

Figure 1.15. **Confidence development and its impact on activity**



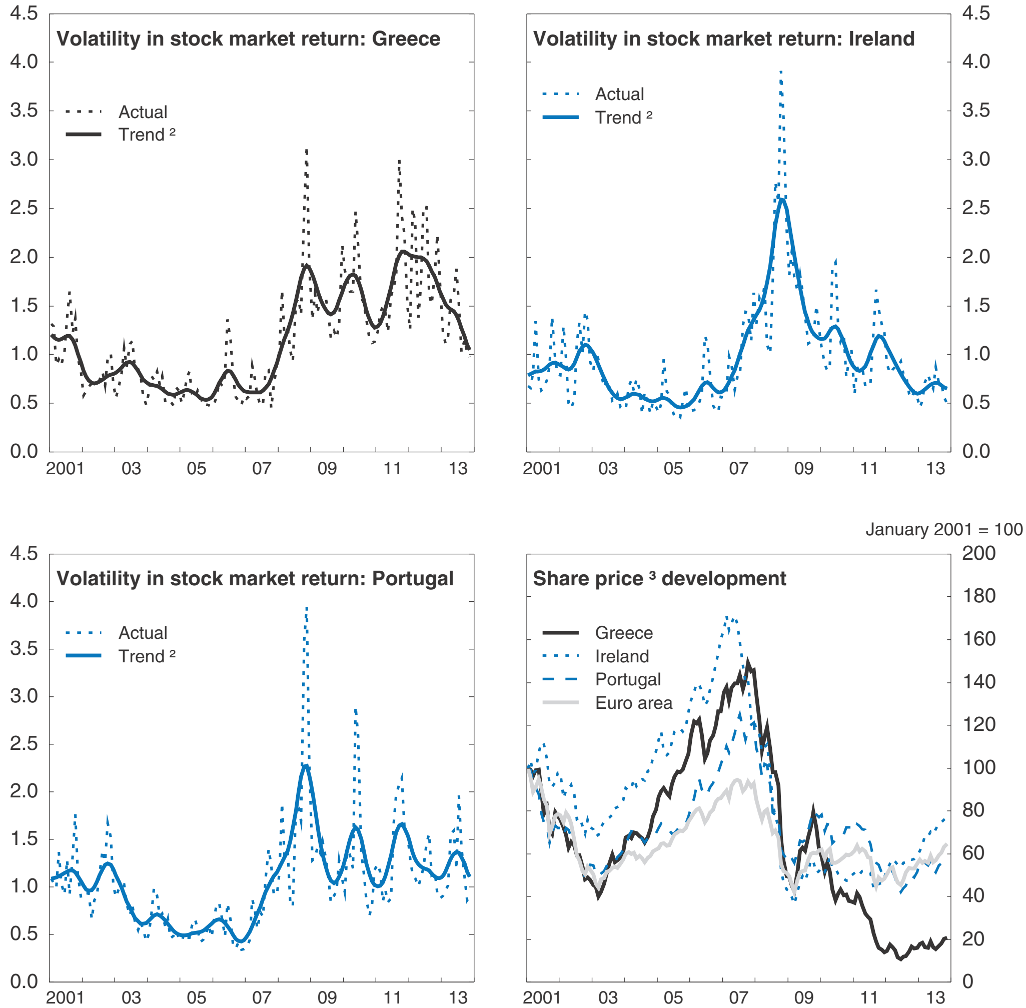
1. The series are normalised and averaged 0 over the period January 1985 to the latest observation.
Source: Eurostat.

StatLink http://dx.doi.org/10.1787/888932958201

from global financial turbulence (measured by the stock market volatility index for the United States) than Ireland and Portugal between end-2007 and mid-2009. On the other hand, a substantial part of the higher uncertainties in Greece since 2009 seems to be due to specific political and social developments in the country (captured by the residuals of the econometric analysis).

One of the specific factors contributing to increasing uncertainties regarding Greece relates to repeated delays in implementing certain aspects of the adjustment programme, in its initial phase. This led markets to question the determination or the capacity of the authorities to honour their commitments to the Troika and to qualify for its financial support. This was aggravated by the debate over keeping Greece in the euro area in mid 2012. However, over the last year, confidence has been built over the determination of the Government to implement the programme. Uncertainty is in turn reinforced by the fear of social tensions caused by rising unemployment and the difficulties of the Greek society to cope with the speed of the required structural changes. These fears have not been proved true since the last parliamentary elections, with relatively less and decreasing demonstrations and strikes. The frequent amendments to the legislative and regulatory frameworks, and sometimes within the same area, such as taxation, also make it difficult to reduce uncertainties and restore confidence, although in most cases amendments are made for further reform improvements. Moreover, there are doubts about the design of the adjustment programme itself, in view of its stronger than anticipated recessionary effect and the vicious fiscal circle with recurrent adoption of additional restrictive measures.

Figure 1.16. **Uncertainty indicators[1] based on financial developments**



1. Stock market volatility measured by a rolling-window 30-day standard deviation of stock index returns, which is then normalised by the average value of the standard deviation between 2001 and 2010.
2. The trend has been estimated by smoothing the normalised series using a Hodrick-Prescott filter.
3. FTSE/Athens large cap for Greece, Overall ISEQ for Ireland, PSI-20 for Portugal and Euro Stock 50 for the euro area.

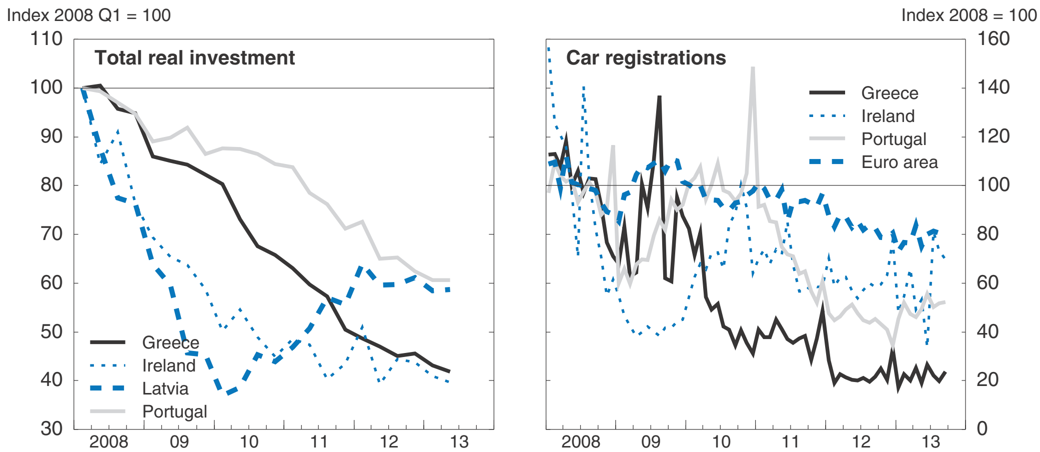
Source: Datastream and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932958220

Further uncertainty is created by the perceived unsustainability of the public debt burden and the slow emergence of the expected benefits of structural reforms on growth.

How important have these uncertainties been for Greek output growth? GDP declined by about 25% between end-2007 and early-2013. Based on structural-VAR model, one can estimate that the rise in uncertainty since the beginning of the crisis accounted for only one tenth of this fall (or 2.5% of GDP) (Schneider and Giorno, 2013). Moreover, slightly less than half of this can be attributed to Greek specific uncertainty. Although stronger than in Ireland or Portugal, this effect thus seems relatively small.

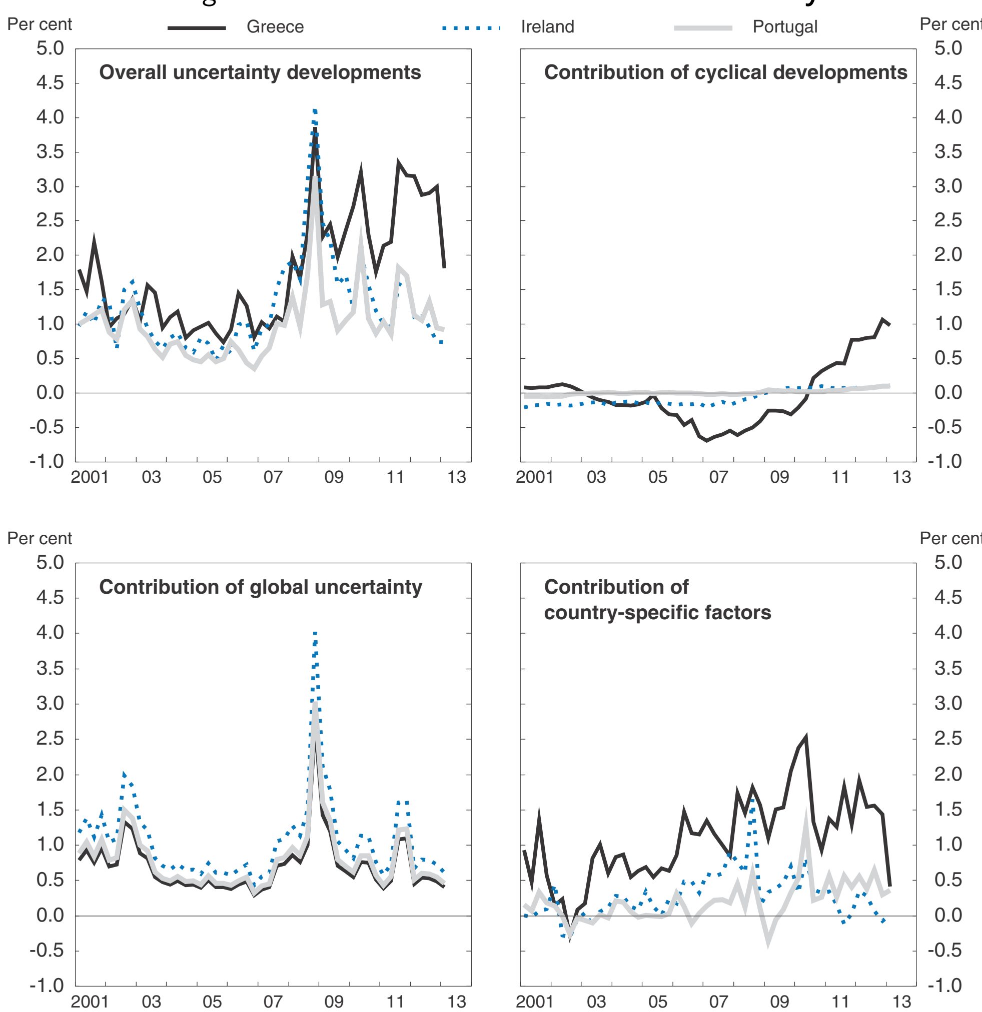
Figure 1.17. **Investment and car registrations**



Source: Eurostat; OECD, *Main Economic Indicators and OECD Economic Outlook databases.*

StatLink http://dx.doi.org/10.1787/888932958239

Figure 1.18. **Sources and evolution of uncertainty**[1]



1. Analysis based on the main share price index of the country.

Source: Datastream and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932958258

Recovery would benefit from more emphasis on pro-growth fiscal adjustment

Partly because of the imperative need to rapidly lower the budget deficit, the initial fiscal consolidation programme was unfavourable to growth. Priority was given to across-the-board adjustment measures, which affected both government revenues and expenditure with limited implementation risks. Revenue increases have for instance led to a substantial rise in the VAT rate and in property taxes, but insufficient progress was made in the rationalisation of the tax system and modernisation of the tax administration. The spending cuts, which affected pensions and wages and employment in the public sector, were not targeted with the view to raise government efficiency and prevent deterioration of the quality of public services. Public investment was also sharply reduced, with substantial restraining impact on growth, since it has been *de facto* used as the main adjustment variable by the authorities to offset the recurrent weakness of the tax receipts during the budget executions to meet their deficit targets.

So far, progress has been made with structural fiscal reforms in pensions and health, but additional efficiency gains can be reaped by improving further the health care system, tax collection and the functioning of administration, and stepping up privatisations. The authorities could do better in designing more pro-growth fiscal measures and better link the budget objectives to structural reforms. Reforms to reduce waste, boost efficiency and improve the allocation of resources within the public sector can mitigate the growth impact of consolidation. A more efficient public sector and better quality of public services create trust with public servants, increase willingness to pay taxes, enhance competitiveness, and attract more foreign investments. A more efficient civil service is also essential to implement other structural reforms, including for product markets that are key to restoring growth. In this context, the EU headed Task Force, created in autumn 2011 to speed up the structural reforms, should continue to provide a welcome and important support.

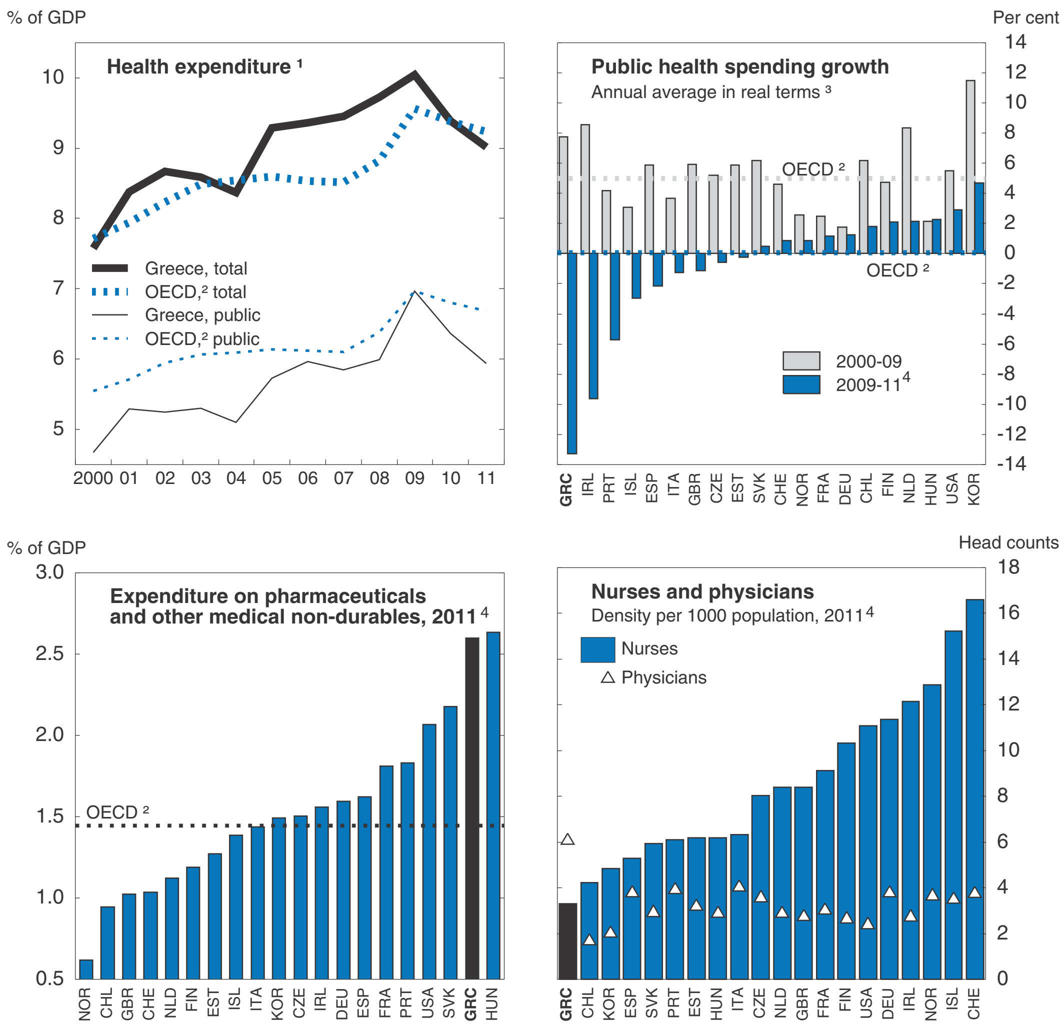
The health system has room for more efficiency gains

Controlling health care costs has been a challenge for some time (Economou and Giorno, 2009). Since the onset of the crisis, significant measures have been taken to improve control over pharmaceutical products, better manage tendering of purchases of medical goods and services and address the fragmentation and deficiencies in the health system's operation. These measures have rationalised the system's organisation and reduced spending on pharmaceuticals and hospital services. Public and total health spending declined sharply in real terms between 2009 and 2011, reaching 6% and 9% of GDP, respectively (Figure 1.19). The crisis made it possible to remove some of the obstacles to the important and necessary reforms for making the health system more efficient, after the failure of numerous previous attempts (Economou et al., 2013).

Potential further efficiency gains in public medical spending have been estimated at more than 2% of GDP between 2007 and 2017 (OECD, 2011b). As foreseen in the 2013-14 budget, increased use of generic drugs will reduce the still-high level of pharmaceutical spending (Figure 1.19). Rationalisation of the hospital network and its management and administration costs, which have risen sharply since 2009, are to be reined in (Economou et al., 2013). However, the efficiency gains in hospitals and the quality of services are still being held back by the problems of adapting staff structure to hospital care needs. Although the number of doctors in the Greek health workforce is very high, there is a longstanding shortage of nursing staff, which was already acute before the crisis

(Figure 1.19). These problems are compounded by the current rule, which is part of the fiscal consolidation programme, that only one retiring nurse in five will be replaced. A relaxation of this rule should thus be envisaged in the case of nurses. If needed, the negative budget consequence of such a measure could be offset by imposing a more stringent replacement rule for retiring doctors, given their high number.

Figure 1.19. **Health care indicators**



1. Excluding investment for Belgium, Greece, Netherlands and Portugal.
2. OECD average excluding Greece.
3. Deflated by the GDP implicit price deflator.
4. Or latest year available.

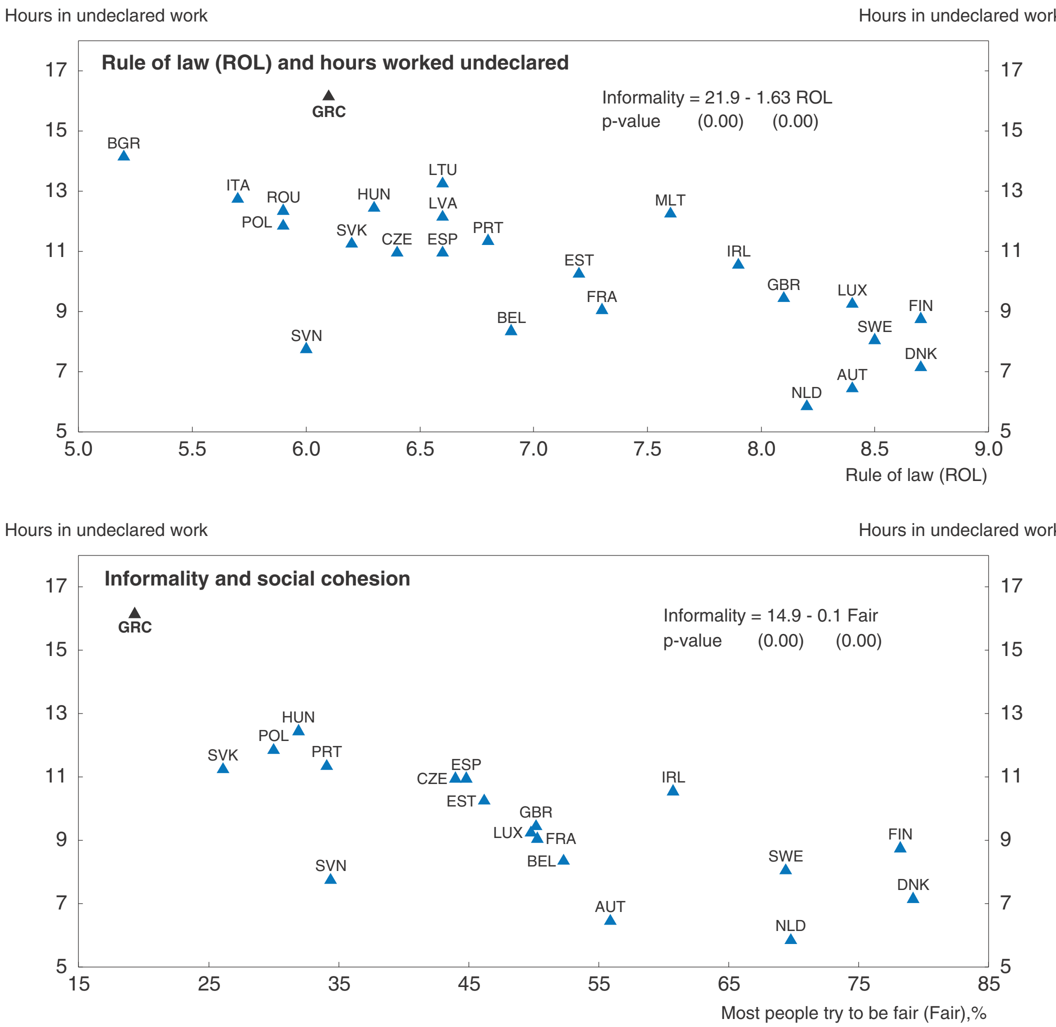
Source: ELSTAT; OECD, *System of Health Accounts and OECD Economic Outlook databases.*

StatLink http://dx.doi.org/10.1787/888932958277

Tax collection and evasion remain a challenge

Tax evasion has long undermined the tax base and, in the context of deep fiscal austerity, has become an acute issue given the need to raise revenue. Combating tax evasion is also crucial for restoring public confidence in public administration and distributing the fiscal adjustment effort equitably (Chapter 2). While recent tax increases have been targeted, the burden of VAT, excise and property taxes has largely fallen on taxpayers with average or modest means. Moreover, the ability of many of the better-off to dodge tax payments with impunity (see below) does little to encourage tax compliance (Figure 1.20). A decisive reduction in tax avoidance is essential to demonstrate the authorities' determination and capacity to remedy the malfunctioning of the rule of law and restore a sustainable return to confidence and growth.

Figure 1.20. **Informality, rule of law and social cohesion**



1. Rule of law refers to Area 2 (Legal Structure and Security of Property Rights) of the Economic Freedom of the World Index. This index is based on seven components: judicial independence, impartial courts, protection of property rights, military interference in rule of law and the political process, integrity of the legal system, legal enforcement of contracts and regulatory restrictions on the sale of real property. For more details, see *Source*.

Source: Andrews, D., A. Caldera Sánchez and Å. Johansson (2011), "Towards a Better Understanding of the Informal Economy", *OECD Economics Department Working Papers*, No. 873, Figures 11 & 12.

StatLink *http://dx.doi.org/10.1787/888932958296*

The campaign against tax evasion has produced disappointing results to date

While tax evasion is difficult to measure precisely, it is estimated to be fairly high compared to other OECD countries, and there is nothing to suggest that it is retreating. The most recent estimates of the weight of the informal economy, which tends to pay little tax, place it at between 25% and 30% of GDP (Vasardani, 2011). Although the Labour Force Surveys do not point to any increase in the uninsured employment rate, more than 35% of employees of firms inspected in the first half of 2012 were undeclared according to the labour inspection office (SEPE) compared to fewer than 30% one year earlier (Kanellopoulos, 2012). The tax debt has increased because of the recession from EUR 44.9 billion (22% of GDP) at the end of 2011 to EUR 55.8 billion (30% of GDP) at the end of 2012, and to EUR 59.0 billion (32% of GDP) in August 2013.

These collection problems affect mostly personal income tax, especially in the case of the self-employed (Flevotomou and Matsaganis, 2010). Recently, Artavanis et al. (2012) estimated that underreporting of income by the self-employed was costing around 1¾ per cent of GDP in foregone revenues every year. Another important source of revenue losses results from undeclared employment and from problems with recovering the VAT. The collection of employers' social contributions and of the VAT (whose rates were raised) has become less effective with the crisis (Table 1.3). If tax collection in percentage of potentially collectable tax receipts were similar to the OECD average, Greek tax revenues in 2011 would have been 6 percentage points of GDP higher, according to OECD estimates. This revenue gap may in principle both reflect a policy gap (or a policy choice due to larger tax exemptions than other countries or differences in ceilings and floors of the tax system…)

Table 1.3. **Share of potential tax revenues actually collected in 2008 and 2011**

In per cent

	Statutory rates (2008)		Tax collection ratio (2008)		Statutory rates (2011)		Tax collection ratio (2011)	
	VAT	SSC[1]	VAT[2]	SSC[3]	VAT	SSC[1]	VAT[2]	SSC[3]
Austria	20.0	21.6	0.74	0.63	20.0	21.6	0.72	0.64
Belgium	21.0	34.6	0.64	0.47	21.0	34.8	0.64	0.48
Czech Republic	19.0	35.0	0.75	0.66	20.0	34.0	0.71	0.67
Finland	22.0	24.0	0.74	0.76	23.0	22.5	0.70	0.78
France	19.6	41.7	0.63	0.51	19.6	41.6	0.62	0.51
Germany	19.0	19.5	0.66	0.68	19.0	19.7	0.67	0.67
Greece	**19.0**	**28.1**	**0.51**	**0.56**	**23.0**	**28.6**	**0.42**	**0.47**
Hungary	20.0	29.0	0.71	0.69	25.0	28.5	0.60	0.59
Ireland	21.0	10.8	0.66	0.69	21.0	10.8	0.60	0.76
Italy	20.0	32.1	0.50	0.69	20.0	32.1	0.51	0.68
Japan	5.0	12.6	0.85	0.75	5.0	13.9	0.89	0.73
Korea	10.0	9.8	0.78	0.56	10.0	10.1	0.84	0.55
Netherlands	19.0	12.3	0.84	0.80	19.0	12.2	0.81	0.81
Poland	22.0	18.4	0.58	0.69	23.0	14.8	0.50	0.79
Portugal	21.0	23.8	0.60	0.64	23.0	23.8	0.54	0.45
Slovenia	20.0	16.1	0.80	0.67	20.0	16.1	0.71	0.68
Spain	16.0	30.2	0.57	0.60	18.0	29.9	0.50	0.58
Sweden	25.0	32.4	0.79	0.50	25.0	31.4	0.79	0.46
Switzerland	7.6	11.1	0.87	0.46	8.0	6.2	0.79	0.89
United Kingdom	17.5	12.8	0.57	0.58	20.0	13.8	0.57	0.52
Average[4]	18.1	22.5	0.70	0.63	18.9	22.0	0.67	0.64

1. Employer's social security contributions.
2. Ratio of the actual revenue from value added taxes to private consumption divided by the statutory VAT rate.
3. Ratio of actual revenue from employer's social security contributions to compensation of employees divided by the employer's statutory rate of social security contributions.
4. Unweighted average of above countries, excluding Greece.

Source: OECD, *OECD Economic Outlook and Tax revenue databases*; OECD calculations.

and gaps in compliance and administration. However, other recent analysis concerning the VAT suggests that the more serious tax collection problem in Greece than in average other European countries mostly results from poor compliance (Case and CPB, 2013).

Yet the causes of tax non-compliance are well known

One main cause of non-compliance is the complexity of the tax system (OECD, 2011a). Circulars are issued within the tax administration in great numbers (nearly one a day), just to clarify tax legislation (Vasardani, 2011). The tax system contains numerous exemptions, and there are still six rates of VAT, when the special regimes applicable in certain islands are included. Frequent changes in tax legislation and the fact that the Ministry of Finance has never published a tax code, pose an additional compliance difficulty for taxpayers.

Tax evasion is facilitated by the weakness of the tax administration, and more generally of the rule of law (Figure 1.20). The problems in this area are many and deep. The tax administration is short-staffed: there are currently 1 600 auditors, while 2 000 more are needed (IMF, 2013b). Tasks are not well allocated among existing personnel, either from a functional or a geographic viewpoint. These problems are reinforced by a lack of effectiveness and of motivation of staff members, more than half of whom are over 50 years of age and have seen their pay cut sharply since the onset of the crisis.

The working methods are inadequate. Audits are ineffective because they are poorly targeted in the absence of rigorous risk selection (Vasardani, 2011; EC, 2013b). Non-compliance detection tools rely too little on the comparison of tax declarations with sources of supplementary financial information on taxpayers' bank accounts and real estate holdings. Lastly, court proceedings are too slow and unreliable, as they give rise to frequent appeals. In serious cases these proceedings can run on for 10 years (Vasardani, 2011), and this strips much of the credibility from the risk of punishment in cases of important fraud, while tax amnesties have regularly been adopted in the past (OECD, 2011a).

These shortcomings have persisted for many years encouraging opportunistic behaviour, particularly among self-employed professionals, to the point where tax evasion has become a social norm. Recent studies comparing tax and banking data for tens of thousands of individuals estimate that the real income of these taxpayers was 1.9 times higher than the value declared over the period 2003-10 (Artavanis et al., 2012). The existence of large-scale tax evasion has also led banks to adjust their prudential criteria and lending. For example, debt service of self-employed professionals' amounts to more than 80% of their declared income, and this figure exceeds 100% for many professions such as accountants, lawyers and physicians (Table 1.4). These levels are far in excess of the 30% benchmark normally used by banks, yet without any sign of higher risk of default: this testifies to the good information they have about their customers' true wealth and income.

A recent review by the Global Forum on Transparency and Exchange of Information for Tax Purposes of the Greek legal framework for availability of, access to and exchange of information relevant to tax matters, suggests that Greece needs to address some regulation gaps to reduce its tax collection and administration problems (OECD, 2012a). For example, there are many instances where the holders of bearer shares in *sociétés anonymes* and shipping companies must be identified but the current regulation does not ensure the availability of information on the identity of persons holding bearer shares in every circumstance. Foreign companies managed in Greece are not obliged to maintain ownership information in all cases, and there are no penalties for shipping companies failing to maintain a share register.

Table 1.4. **Reported income and bank debt service for selected self-employed professionals**

In euros

	Monthly declared income	Monthly debt payments	Ratio of payment/ declared income	Annual delinquency probability
Accounting and financial services	1 479	1 701	1.15	0.11
Agriculture	984	538	0.55	0.26
Business services	1 200	825	0.69	0.20
Construction	1 128	719	0.64	0.20
Doctors	1 628	1 660	1.02	0.06
Education	1 214	1 099	0.91	0.19
Engineering and science	1 511	1 264	0.84	0.08
Fabrication	1 731	1 607	0.93	0.20
Law	1 558	1 647	1.06	0.07
Lodging and restaurants	1 234	1 305	1.06	0.21
Media and art	1 351	1 064	0.79	0.16
Other	1 333	1 066	0.80	0.23
Personal services and pharmacy	1 394	1 301	0.93	0.20
Retail	1 640	1 758	1.07	0.22
Transport	1 412	1 424	1.01	0.16
Overall	1 289	1 057	0.82	0.20

1. The bank data are from a large Greek bank, with industry, income distribution and geography weighted to be representative of the population of Greece at large. Data are from 2003-10. The sample for this table are mortgage applicants and non-homeowner consumer loan applicants, which excludes homeowner consumer loan applicants due to lack of a good estimate of monthly payments on other outstanding debt. Monthly reported income is the verified income as reported to the tax authority. Monthly debt payments are the servicing on the loans, with the interest rate of 10% for consumer loans and the rate applicable for mortgage (conservative averages). The annual delinquency rate is an average over an indicator for each loan by year as to whether the loan goes over 90 days delinquent.

Source: Artavanis et al. (2012) "Tax Evasion Across Industries: Soft Credit Evidence from Greece", *Chicago Booth Research Paper*, No. 12-25.

Measures have recently been adopted or announced to remedy the shortcomings

Initial measures taken to stem tax evasion were piecemeal. In 2010, for example, the Parliament rejected a proposed reform to impose a compulsory audit for 11 specific independent professions when declared income was below a certain threshold (Artavanis et al., 2012). Also, the position of the head of the General Secretariat of Revenue remained vacant throughout 2012. In the absence of leadership, the objectives relating to recruitment, redeployment of resources, and improvement of working procedures were not achieved. The number of local tax offices was reduced, but oversight of the local agencies by the central authority has not been reinforced (IMF, 2013b). Internal controls against corruption are still inadequate, despite the creation of a department of internal affairs at the Ministry of Finance. The requirement for upfront payment by taxpayers who launch an appeal has not been enforced (IMF, 2013b). The results of the arbitration committee, which was established to speed up the settlement of large (exceeding EUR 150 000) tax penalty disputes, have been disappointing as its capacities fall far short of the number of new cases to be processed. There has been some progress, however, in combating money laundering, thanks to improvements in the mechanisms for detecting suspicious financial transactions (EC, 2013c).

However, at the beginning of 2013, some major changes were initiated. Several tax deductions and credits (for student expenses, life insurance, mortgage interest, etc.) of the personal income tax were eliminated and the number of tax brackets was cut from 8 to 3. Taxation of self-employed professionals was also amended, with the elimination of personal deductions and the introduction of an initial tax rate of 26%, rising to 35% for incomes beyond EUR 50 000. The Code of Books and Records was simplified to lower the costs of tax compliance. Finally, a property tax reform, which is in principle fiscally neutral, has started in 2013 and will continue in 2014 to unify the various existing property taxes, broaden the base and lower its rate.

The tax administration has been given greater autonomy to improve its functioning, to limit the risks of political interference, and to speed up implementation of the reforms. Accordingly, a new secretary-general was appointed to head the administration in January 2013 for a five-year term, with greater independence and broader powers and responsibilities. These measures were accompanied by greater accountability of staff on the basis of regular performance appraisals.

The authorities are also committed to addressing the problem of short staffing, and measures were taken to modernise the working techniques of the tax offices. The procedure whereby a taxpayer who was being audited was systematically required to submit for inspection all his tax returns for the last 10 years was eliminated in early 2013. Personnel training has been instituted with the help of the Task Force to develop the use of risk-based audits and to create specialised units by type of fraud (EC, 2013c). The administration will now have more direct access to banking information, reducing audit times, and will be able to use indirect methods for assessing taxpayers' income without having to resort to specific mechanisms. The procedure for cancelling tax debts is also being reviewed to identify more clearly those that are recoverable and improve their collection. Lastly, the authorities have initiated a rationalisation of the collection of social contributions, which, since July 2013, has been entrusted to a single agency, the IKA, for all pensions and sickness insurance funds.

A more ambitious reform effort is needed

These many changes should enhance the efficiency of tax inspection and tax debt collection. It is particularly urgent to address the problem of recruitment of qualified staff and to modernise the working methods as recommended by the EC and IMF technical assistance teams to Greece. Moreover, stability, together with greater transparency and simplicity in property taxes and indeed in tax legislation as a whole, is desirable for Greek entrepreneurs and also for attracting foreign direct investment, notably in the real estate sector. According to the World Economic Forum, the complexity of the tax system is one of the main obstacles to entrepreneurial activity in Greece (WEF, 2012).

However, greater effort seems to be needed to boost the credibility of the authorities' ability to identify and promptly punish tax cheaters. The most important challenge is to improve the functioning and the speed of court proceedings (Vasardani, 2011; Palumbo et al., 2013). The slow pace of justice undermines the proper functioning of the rule of law. Efforts under way to simplify the code of civil procedures, with the help of the Task Force, are welcome. But greater priority could also be given to the processing of tax cases through the judicial system. Moreover, the authorities could promote specialised out-of-court mediation systems whenever possible. The preliminary draft law establishing mediation committees to settle disputes between government and taxpayers is for instance an interesting initiative (Ministry of Justice, 2013).

There is also a need for more transparency and accountability in the functioning of justice. For this, reliable and detailed statistics on the work and the outcomes of its administration are essential. For progress in this field, and to improve the speed of justice, the services need to be promptly computerised. International comparisons show that the production of statistics and the use of websites and electronic registries can enhance efficiency and accelerate judicial procedures (Palumbo et al., 2013). As long as tax cheaters do not face a credible threat of sanctions, progress in tax collection is bound to be limited.

There is also the need for better linkages and cross-checking between information concerning taxpayers' bank accounts, wealth, and their status with respect to social contributions and tax payment to facilitate the detection of fraud. Greece should consider establishing a legal obligation on the Financial Intelligence Unit to provide the tax administration with any information relevant to the administration or assessment of taxes, either spontaneously or on request (OECD, 2012b). Reliable information on household resources is key for the effectiveness and proper targeting of social transfers (Chapter 2). As recommended by the OECD Global Forum's review, there is also a need to address the gaps identified in Greece's legal framework regarding the availability of information for tax purposes including its ability to respond to international requests for information in a timely manner (OECD, 2012a). Greece should also move quickly to implement the new standard of automatic exchange of information being developed by the OECD once the technical and operational aspects are finalised next year.

Finally, steps are needed to induce society to pay greater importance to tax compliance. The efforts to identify cheaters, to expose them publicly and to punish them should be pursued. The authorities should definitively renounce all forms of amnesty that reward tax evaders. From this perspective, the planned rationalisation in 2013 of the solvency framework for households, with the implementation of the "facilitation programme" and removal of the multitude of previous schemes which carried the features of tax amnesties, is welcome. The government should also consider publishing the personal taxes paid by all taxpayers, as is done in parts of northern Europe. This radical approach would have the advantage of generating a "cultural" shock of transparency in the country to address its deep problem of tax evasion that has become a quasi-norm. However, such an approach would raise an issue of confidentiality of tax payer information, which is a key consideration in many countries. Moreover, it would also be a challenging task for the tax administration, which is currently overburdened.

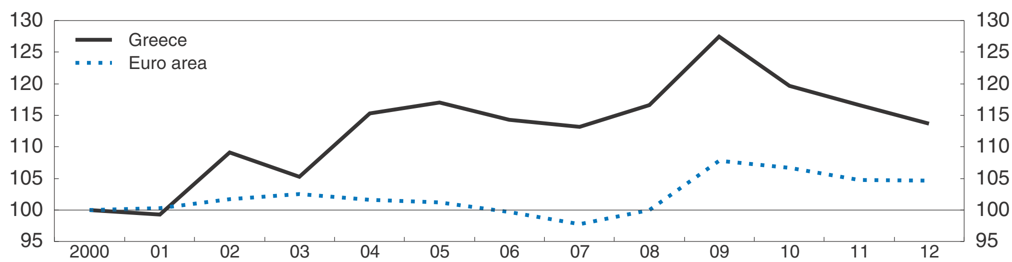
The in-depth reform of the administration would enhance efficiency of reforms

There is considerable scope for improving the effectiveness and efficiency of the civil service to guarantee proper implementation of reforms in the adjustment programme and boost confidence. The Greek civil service suffers from inadequate organisation and management of human resources; fragmented administrative structures with overlapping responsibilities; insufficient communication and co-ordination within and between ministries, which often work in isolation from each other; a complex legal framework with administrative procedures overly formalistic and focused on process instead of outcomes; lack of systematic data collection and management, which are essential for implementing evidence-based reforms; and faulty mechanisms for audit and control of administrative units, with the attendant problems of corruption (OECD, 2011c). Resolving these difficulties is further complicated by the current context of fiscal restraint, salary cuts, and public sector staff reductions. The feeling of insecurity on the part of civil servants has been exacerbated since the onset of the crisis, and fosters bureaucratic resistance, as evidenced by the frequent public sector strikes.

Public sector wage and salary reform has been part of the adjustment programme to improve governmental efficiency. The chief concern has been to rein in the upward creep in the government payroll between 2000 and 2009, which has been partly achieved thanks to remuneration rationalisation (Figure 1.21). The 13th and 14th month bonuses were cut and the fragmented management of pay by ministries and public agencies was replaced by a salary grid in November 2011. This was extended to special pay regimes (for judges, professors, police and military, secretaries general, etc.) in November 2012. These reforms have not only reduced average pay levels by nearly 20% but have rationalised their structure.

Figure 1.21. **Government wage expenditure**

As a percentage of GDP, index 2000 = 100



Source: Eurostat.

StatLink http://dx.doi.org/10.1787/888932957650

The policy of down-sizing public employment, on the other hand, has not been sufficiently targeted, thus hurting efforts to distribute the workforce more efficiently across the administration. The government has committed to reducing staffing levels by 150 000 between 2011 and 2015. This is to be achieved by an attrition rule whereby only one civil servant in five who leaves will be replaced. However, implementation is creating operational difficulties in several areas. It does not resolve the staff allocation problems that existed before the crisis – for example there is a shortage of administrative personnel in the police and hospital services with surpluses in other areas. In some cases, the attrition rule has accentuated these difficulties. These problems also stem from the failure to implement the labour reserve programme, which was supposed to enhance internal mobility within the government: in 2012, only 200 employees were placed in that reserve, instead of the planned 15 000.

To address these shortcomings, the mechanism for transferring employees within government has been reviewed. The authorities have developed a new "mobility scheme", based in part on estimating departmental needs and in part on evaluating employees' skills and qualifications. A detailed analysis of the missions, means and structures of the various state entities was conducted to identify staffing needs and opportunities for reorganisation and rationalisation. There was a transparent assessment of each employee's skills, attitudes and motivations, conducted by an independent outside agency using a *"bilan de compétence"*. This process, sponsored by the ministry for administrative reform with the active support of the Task Force, is to be completed by the end of 2013: some 2 000 employees were placed in the mobility scheme at the end of 2012, and another 25 000 are to be added before the end of 2013. Persons transferred under this programme can stay in it for at most eight months at reduced pay (representing in effect a severance allowance), which gives them time for retraining to facilitate their search for a new job within government, or elsewhere in the private sector.

This programme will be supplemented by the hiring of qualified personnel, who are in short supply in many government sectors. To boost recruitment (which is limited by the attrition rule, due to remain in force until 2016), 15 000 employees will be laid off by the end of 2014 (of which 4 000 by end-2013). First in line for layoff will be employees who have engaged in serious misconduct, and those in wound up public entities. This is necessary to make government more efficient, especially in the tax area, where the implementation of structural reforms requires skilled professionals who are hard to find within the mobility scheme.

The authorities have also decided to improve the steering and monitoring of reforms, handing this task to a new General Secretariat reporting directly to the Prime Minister. This new structure is needed not only to co-ordinate the work of the different ministries and to make the necessary trade-offs in case of disagreement, but above all to supervise implementation of the reforms (OECD, 2011a and 2011c).

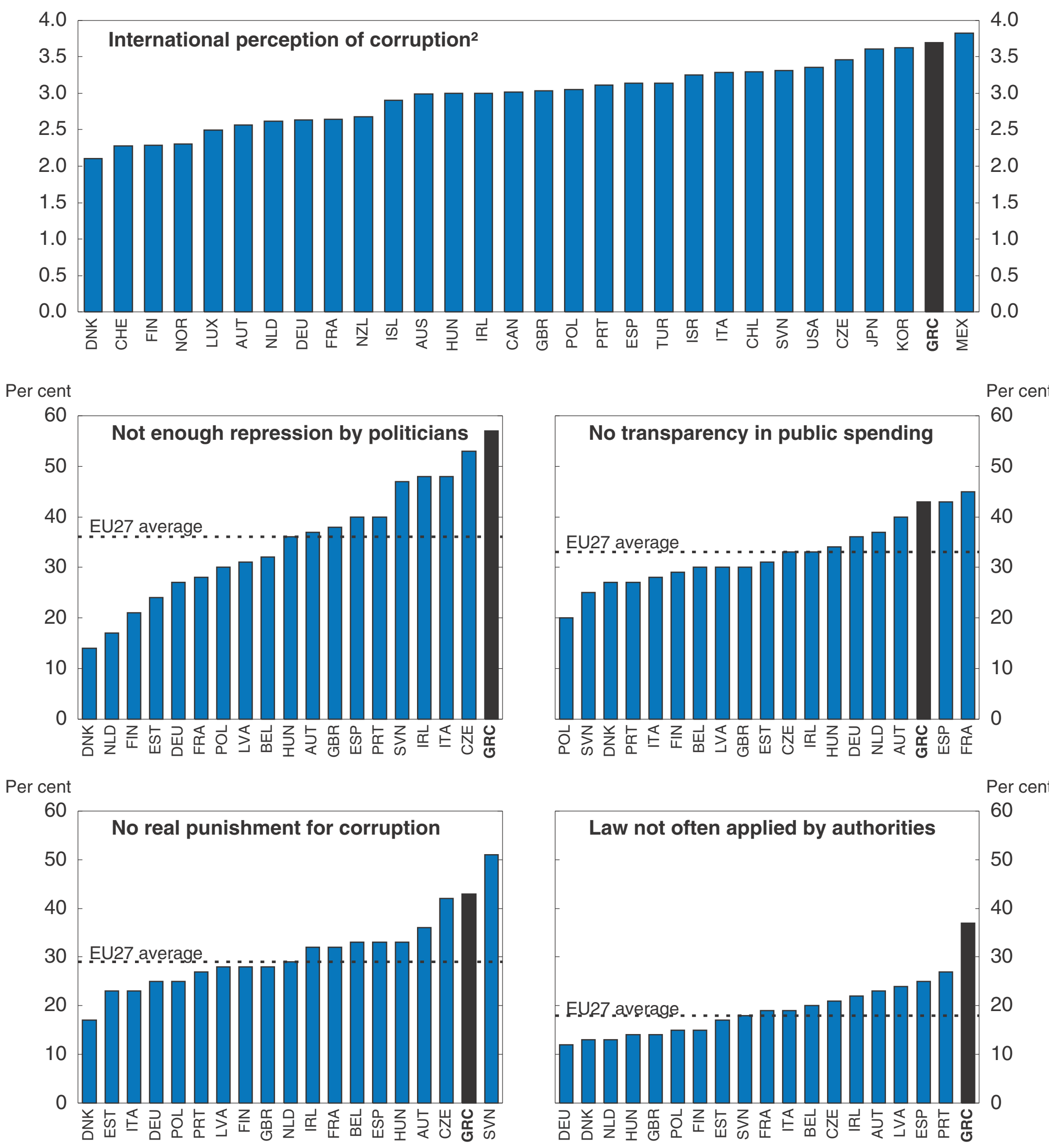
Measures were also taken to enhance the quality of regulations. The highly formalistic and legalistic approach to regulation in Greece has generated important administrative costs, with frequent overlapping of responsibilities, duplication and conflicts among different legal texts, which are typically applied without any time limit (OECD, 2012c). In February 2012, Parliament laid the foundations for better regulation, which included a systematic regulatory impact assessment of all legislative changes. However, at the time of writing, this has not been implemented in a systematic way. The authorities have also created a website where all draft laws are available for comment. However, these measures seem to have had little impact on working methods to date. The newly created office to oversee the principles of Better Regulation, for example, lacks both the powers to carry out its functions (in absence of support of the Secretary General of the government) and the resources (since it has no staff), partly because of fiscal restrictions and reduced attractiveness of civil servant wages. There is no mechanism as yet to evaluate or adopt the suggestions received via the new online consultation system.

The authorities seem determined to step up the campaign against corruption in government

It is difficult to measure accurately the scope of corruption within government. However, available information (based most often on surveys) suggests that it is serious. According to Transparency International, in 2012 the public perception of corruption was higher in Greece than in any other OECD country except Mexico (TI, 2012) (Figure 1.22). The latest Euro barometer corruption survey found that 98% of persons interviewed (the highest rate among European Union countries) considered corruption to be one of their country's major problems, and 56% believe that corruption had worsened in the last three years (EC, 2012a). The Greek society also seems to have clear-cut views on the main sources of this corruption (EC, 2012a): lack of commitment by the authorities to combating the scourge; inadequate transparency in the handling of public funds; the feeble dissuasive effect of the risks incurred for acts of corruption, such as the common practice of under-the-table payments in the public care system (Economou and Giorno, 2009); and the authorities' frequent failure to enforce the law (Figure 1.22).

The negative economic fallout from corruption is significant. Corruption increases uncertainty in economic decisions, and this harms investment, in particular from abroad. It is also bad for competition, it adds to production costs, informality and tax evasion and it distorts resource allocation. A recent analysis of panel data covering developed and emerging countries draws a significant negative link between corruption in the public

Figure 1.22. **Perception of corruption and its underlying causes**[1]



1. Report on corruption conducted by TNS Opinion & Social at the request of EC Directorate-General Home Affairs.
2. Average perception of corruption across 6 public institutions. 1 = not at all corrupt, 5 = extremely corrupt.

Source: Transparency International, *Global Corruption Barometer 2010/11* (*http://gcb.transparency.org/gcb201011/*); Eurobarometer (2012), *Corruption – Report, Special Eurobarometer 374.*

StatLink http://dx.doi.org/10.1787/888932958315

sector and economic growth (Igwike and Ershad Hussain, 2012). Moreover, corruption has an adverse impact on income distribution and equity, the political economy repercussions of which are particularly worrisome in the current context.

A welcome anticorruption action plan for an overall national strategy, representing a joint initiative of several ministries, was adopted in October 2012 (EC, 2013c). A draft law will be submitted to Parliament in the second-half of 2013 to enhance the structure of anticorruption governance with the appointment of a national co-ordinator endowed with sufficient support and powers to put this strategy into effect. The priority action areas include better prevention work to guarantee public integrity, the reinforcement of financial investigations and prosecution in cases of corruption, more effective sharing of information, a stronger legal framework, and provisions to facilitate the reporting of cases of corruption and to protect whistle-blowers.

The reforms point in the right direction, but they should go further in some areas

Over the medium term, the authorities might consider eliminating the status of civil servants and their guarantee of lifetime employment, as is already the case in many OECD countries, even if it requires a constitutional amendment. The rigid constraints imposed by the current civil servant status strongly hinder the progress of reforms and lead to suboptimal measures to improve the functioning of administration and the quality of public services. The hiring restrictions in the government sector, with the attrition rule currently in force, and the mobility scheme adopted for civil servants are ineffective and difficult-to-manage tools to modernise the administration. Yet, the persistent deficiencies of the civil service weigh heavily on the whole adjustment programme of the country. Reduced rigidity in civil servant status would be beneficial for efficiency, as it would ease adjustment of public employment in the future to evolving skill requirements, improve performance incentives and facilitate staff movement between the private and public sectors. Moreover, it would be desirable for the sake of equity *vis-à-vis* the private sector (Chapter 2), particularly in the wake of the changes adopted to make private employment more flexible (see below).

However, eliminating the guarantee of lifetime employment of civil servant may face serious political obstacles in the current context, and authorities' reform efforts might be better placed in improving the efficiency of the current cohort of civil servants. To this end, beyond the welcome measures adopted by the government to improve the quality and productivity of public service, the modernisation and effective functioning of public administration could be enhanced by a number of additional actions, as suggested in the *2011 OECD Survey* (OECD, 2011a). For instance, it would help to further spread a culture of evaluation of staff performance based on clear individual objectives, to end automatic promotions linked to seniority, to sanction unsatisfactory behaviour and reward efforts. Significant efficiency gains could also be achieved through further development of e-government to boost public sector productivity and facilitate private citizen interaction with government department and agencies. The government actually plans to take steps in several of these domains.

The new General Secretariat responsible for steering the reforms within the Prime Minister's office needs the resources to play its role fully and actively in terms of arbitrating, co-ordinating and supervising implementation of the reforms (OECD, 2011c). To ensure this last function, there should be better collection and dissemination of data needed to verify concrete implementation of reforms. There is a glaring contrast between the means deployed by the government for overseeing the sound implementation of budgets and the modest efforts made to check that the structural reforms are carried out. This imbalance needs to be rectified. The scope, the quality and the dissemination of indicators on implementation of structural reforms must be improved. This would reduce the risks of selective use or misuse of information in this area, and send an important signal about the government's efforts at transparency.

Faster progress would also be desirable in implementing the principles of Better Regulation and improving regulatory texts: this should include rationalisation and better coding of existing legislation. From this viewpoint, the OECD support, currently provided through the Task Force for evaluating and reducing by 25% the administrative costs entailed by existing legislation in 13 sectors of the economy including the energy, public procurement, company law, telecommunication, VAT, environment and tourism sectors is welcome. However, it would require a more active participation of the Greek administration in this legislation assessment and streamlining exercise. The Greek administration could use the work on reducing administrative costs as a springboard for more comprehensive work on Better Regulation including regulatory impact analysis, public consultation on draft legislation and periodic review of regulatory frameworks. Relatively small investments in the use of regulatory management tools have resulted in significant improvement in the quality of regulatory frameworks across the EU15 (OECD, 2011d). The authorities should also make sure that the office responsible for applying the principles of Better Regulation has the necessary financial and regulatory resources.

Faster privatisation would enhance growth and fiscal sustainability

In July 2011 privatisation revenues were forecast at EUR 50 billion (22% of GDP) between 2011 and 2015. This was reduced to EUR 45 billion for the period 2011-20 (corresponding to annual average revenues of 2% of GDP) in March 2012 (Table 1.5), and then again to EUR 25.6 billion to the year 2020 (annual average revenues of 1¼ per cent of GDP). In 2012, only EUR 100 million was derived from privatisation receipts, instead of the EUR 3.6 billion forecast, and the plans for 2013 are behind expectations because the planned privatisation of the gas company, DEPA, failed.

Table 1.5. **Expected privatisation receipts**

In EUR millions

	2011	2012	2013	2014	2015	2016	2020	2020 share
December 2012 objectives								
Cumulative receipts	1 558	1 659	4 216	6 563	7 704	11 145	25 641	100.0
% of GDP	0.7	0.8	2.2	3.5	4.1	5.8	12.4	
of which:								
Companies	1 558	32	2 247	4 024	4 398	4 772	6 193	24.2
Properties		69	411	981	1 748	2 915	7 065	27.6
Banks						1900	10 825	42.2
								2011-20 average
Annual receipts	1 558	101	2 557	2 347	1 141	3 441	3 824	
% of GDP	0.7	0.1	1.4	1.3	0.6	1.7	1.6	1.2
of which:								
Companies	1 558	32	2 215	1 777	374	374	349	
Properties		69	342	570	767	1 167	1 050	
Banks						1900	2 425	
								2011-20 average
March 2012 objectives								
Cumulative receipts	1 558	5 200	9 200	14 000	19 000	24 000	45 000	
% of GDP	0.7	2.5	4.5	6.8	9.1	11.3	19.7	
Annual receipts	1 558	3 642	4 000	4 800	5 000	5 000	5 500	
% of GDP	0.7	1.8	2.0	2.3	2.3	2.2	2.1	2.0

Source: Data provided by the National Authorities and Quaterly EC and IMF Report on Greece.

Despite these difficulties, the government seems to be determined to move the implementation of this programme forward (EC, 2012b; IMF, 2013b). Since autumn 2012, a number of legal obstacles have been overcome, such as the elimination of the "golden shares", which used to apply to certain public corporations. Problems concerning the consistency of state aid with European rules have been identified and are being regularised. Moreover, the transparency and governance of the privatisation process have been improved. The privatisation fund HRADF (Hellenic Republic Asset Development Fund) now publishes semi-annual updates of its plans, including revenue targets for the current and following year, a description of the assets to be privatised, and the tendering schedule.

Major remaining obstacles relate to the legal difficulties posed by the privatisation of the many (around 100 000) state property holdings. These properties (28% of the value of public assets to be disposed of by 2020, Table 1.5) must be precisely identified, along with associated rights and restrictions. This is time-consuming and the absence of a property registry means additional delays in case of litigation over the properties to be sold. Many of these assets are also held by multiple ministries or other authorities, and in some cases sale requires negotiation to reach consensus with the local authorities on the exploitation and development of the public assets to be sold. Political reservations also hamper privatisations as indicated by implementation delays around the two legislative elections of mid-2012. Some fear that the state will cede an important part of its assets at too low a price, given current market conditions. The limited possibilities for purchasing public assets via bank financing or the Greek capital markets constitute an additional obstacle.

The lack of any clear prospect for resolving the overhanging sovereign debt also tends to reduce foreign investors' appetite for acquiring these public assets, short of a major discount. This situation is reinforced by the uncertainties and the lack of stability in the fiscal framework, especially taxation in the real estate area. The successive downward revisions of the privatisation revenue forecast testify to all these difficulties, although it also reflects a correction of the initially overstated value of public assets.

However, this understandable reluctance should not deter the authorities or cause them to slow the pace of privatisation. Although the scale of privatisation has been revised downwards, it is still ambitious and important not only for reducing the burden of the public debt and its servicing but, above all, for stimulating growth. Together with labour market reform and a reduction in labour costs, privatisation is an essential means for attracting foreign direct investment, even if current conditions entail a certain discount. The size of that discount would have been less, were it not for the cumulative delay to date in implementing reforms. The situation will not be helped by further delays.

In the current context, Greece needs to operate all the available levers at its disposal to stimulate demand and restore investor confidence. The privatisation of public enterprises and the transfer of a portion of state property holdings will, especially if designed to attract investors with credible business plans, lay the basis for new investments to boost demand in the short run and will also have a positive medium-term impact on supply and productivity. The privatisation of the Piraeus port provides a good example of these benefits (see below). Similarly, the privatisation of many marinas that the state has little developed, combined with the privatisation of regional airports, can reinforce the tourism capacity of the country. Swift progress in liberalisation or appropriate regulation of certain sectors is also important for consolidating market confidence in the authorities' determination to stimulate private sector efficiency and growth. Proper regulation would also allay market fears of future competition issues in privatised sectors.

Overall, if the privatisation process is to be pursued and accelerated, it will require not only unflagging political determination but also the mobilisation of sufficient and high-quality human resources as well as the establishment of a framework favourable to foreign investment. The technical and legal obstacles holding back the privatisation process need to be resolved promptly. This will entail, among other things, speeding up the establishment of a land registry with active assistance from the Task Force. The tax environment also needs to be rationalised and stabilised, especially in the area of property taxes.

Labour market reforms have been key to better cost competitiveness

In the run-up to the crisis, wages increased well above productivity, substantially worsening competitiveness. Many rigidities affected labour market outcomes (OECD, 2011a): a high structural unemployment rate and a low employment rate, especially for women and young people; heavy non-wage labour costs, which encouraged informal employment; a wage bargaining system that was ill adapted to firm-specific needs given their productivity performance; strict employment protection legislation (EPL) that penalised workforce adjustments; and important constraints limiting working time flexibility or the use of temporary workers (Figures 3.1 and 3.2 of OECD [2011a]). These rigidities were an obstacle to reducing labour costs and to achieving the internal devaluation that is needed to improve the country's competitiveness while stemming the rise in unemployment. They also increase the risk that the recession-driven rise in unemployment becomes structural (Guichard and Rusticelli, 2010).

The authorities stepped up the pace of labour market reform since end-2011. The measures adopted were focused around four objectives:

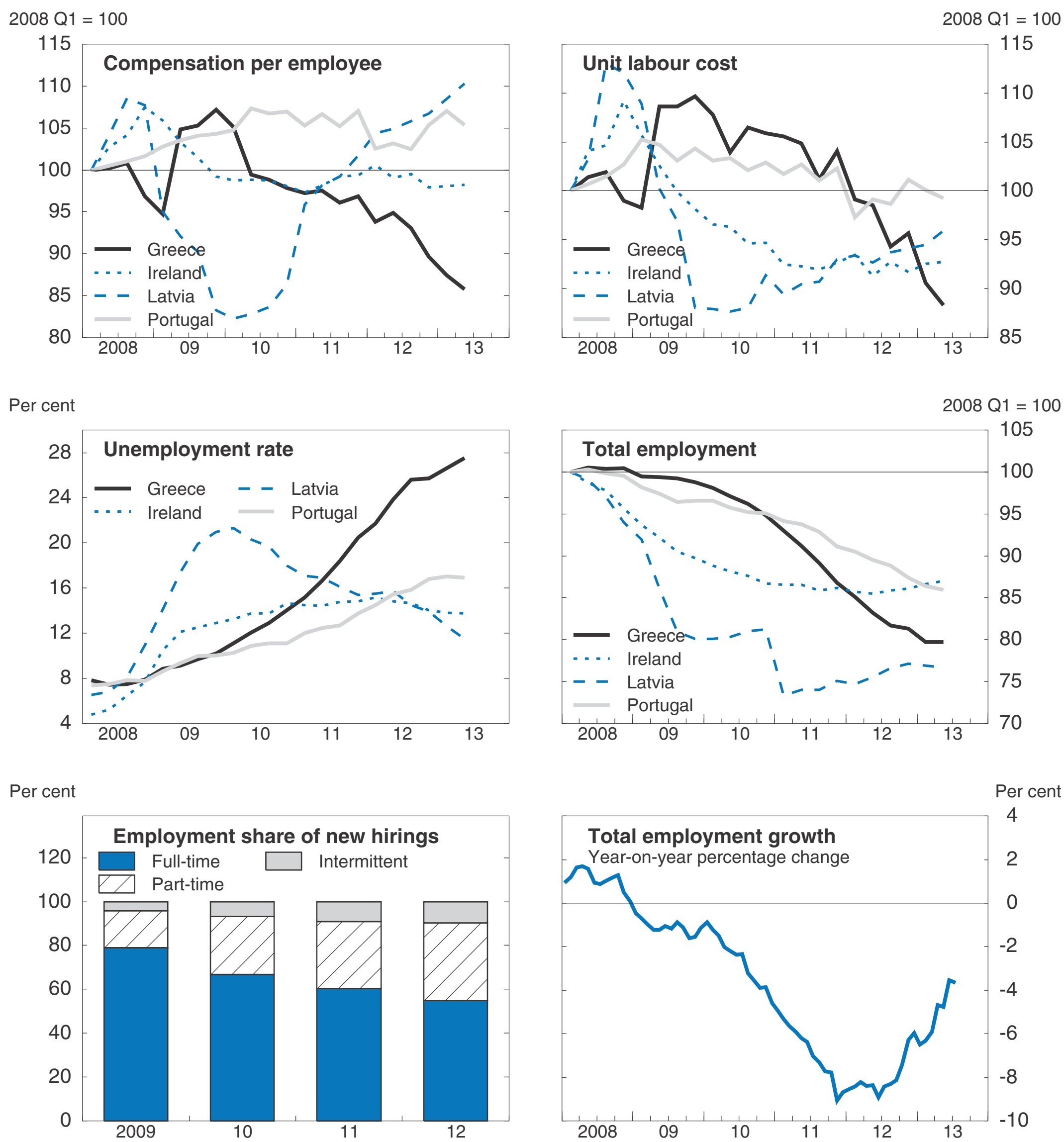
- Decentralising the wage bargaining system. For instance, the administrative extension of the sector-wide salary agreements was eliminated and firm-level collective agreements have been facilitated.
- Softening EPL for permanent employment. The length of prior notice of dismissal and the severance payments were substantially reduced for white-collar workers and the probation period for newly hired workers was raised from two months to one year.
- Reducing the minimum wage. The statutory minimum salary has been cut by 32% to EUR 511 for employees under 25 years of age, and by 22% to EUR 586 for those 25 and older. Moreover, the government instead of the social partners is now responsible for setting this minimum wage.
- Increasing working time flexibility. The legal working week of 40 hours has, for example, been converted to an annual basis, and can now fluctuate more widely, depending on the economic situation.

The announced objective of these measures was to enhance the country's competitiveness by reducing unit labour costs by 15% between 2011 and 2014. To protect these gains, the authorities are also committed not to take any measures that could increase these costs as long as the unemployment rate exceeds 10%. In addition, efforts are being made to simplify and codify labour market regulations to reduce compliance costs.

The reforms have already had a noticeable impact on labour market developments. The initial effect was to encourage decentralised bargaining and to speed up wage adjustments

(Figure 1.23). Unit labour costs fell by 7% in 2012, after dropping by around 1% on average in 2010 and 2011. According to the authorities as well as to OECD projections, the target of a 15% reduction in these costs between 2011 and 2014 is likely to be surpassed. The number of firm-level agreements and individual labour contracts has also risen sharply: they covered nearly a quarter of employees in the non-government sector in December 2012. These agreements entailed nominal salary cuts exceeding 20% on average for individual contracts. The firm-level collective agreements have in some cases provided for wage freezes, but more often for cuts of between 10% and 40% (BoG, 2013). Pay reductions in the renegotiated sector agreements were on average less steep, as in the hotel industry (-6%).

Figure 1.23. **Labour market indicators**



Source: Eurostat; ELSTAT; Greek Labour Inspectorate (SEPE); OECD, *OECD Economic Outlook database.*

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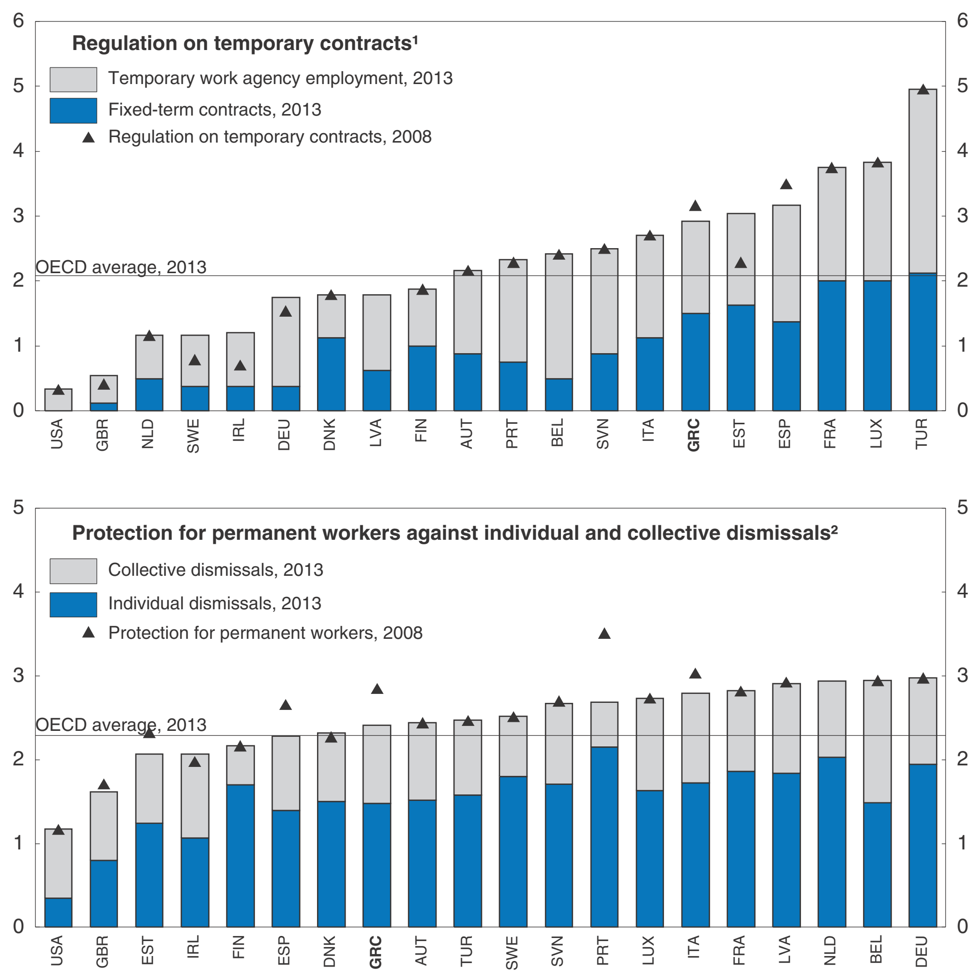
Flexible working arrangements have also become more common, with an increase in the share of part-time and intermittent employment and a decline in full-time jobs (Figure 1.23). The decline in employment has slowed since mid-2012. While nearly half of the firms had shed workers in the second half of 2012, only a quarter were planning to do so in the first half of 2013, according to a recent survey (ALBA, 2013). Hiring decisions should indeed gradually benefit from the softening of EPL, which has been more pronounced than in other OECD countries except Portugal since 2008. According to OECD indicators, this legislation is now just as flexible as it is in Austria or Denmark for permanent jobs, and is close to the OECD average (Figure 1.24). However, it is still rigid for temporary jobs (OECD, 2011a).

Figure 1.24. **EPL indicators**

Scale from 0 (least restrictive) to 6 (most restrictive)



1. The figure shows the contribution of the indicators of regulation for standard fixed-term contracts (EPFTC) and for temporary work agency employment (EPTWA) to the regulation of temporary contracts (EPT). The height of the bar represents the value of the EPT indicator.
2. The figure shows the contribution of employment protection of permanent workers against individual dismissal (EPR) and additional provisions for collective dismissal (EPC) to the employment protection for permanent workers against individual and collective dismissals (EPRC). The height of the bar represents the value of the EPRC indicator.

Source: OECD, *Employment Protection database.*

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Better functioning product markets to boost growth

There are many remaining barriers for a better functioning of markets. Some are explicit resulting from obsolete regulations that, for example, restrict the entry of new competitors or the expansion of existing firms in certain markets or certain places. New and/or foreign firms are also often discouraged by the strong implicit barriers inherent in an absurdly complex bureaucracy, opaque regulations and corruption (WEF, 2011). The cost of red tape was estimated at 7% of GDP before the crisis, or twice as high as the average for European countries (EC, 2006). Reducing this unnecessary burden on business activity would also be beneficial to innovation and productivity.

The authorities have corrected some important gaps in the functioning of product markets since the onset of the crisis. According to the World Bank, the business regulatory environment improved more in 2012 than during the six preceding years, and this progress has been more marked than in other OECD countries, with the exception of Poland (Figure 1.25) (WB, 2013a and 2013b). Similarly, OECD indicators point to the sharpest reduction in the rigidity of product market regulation between end-2007 and end-2012 among OECD countries.

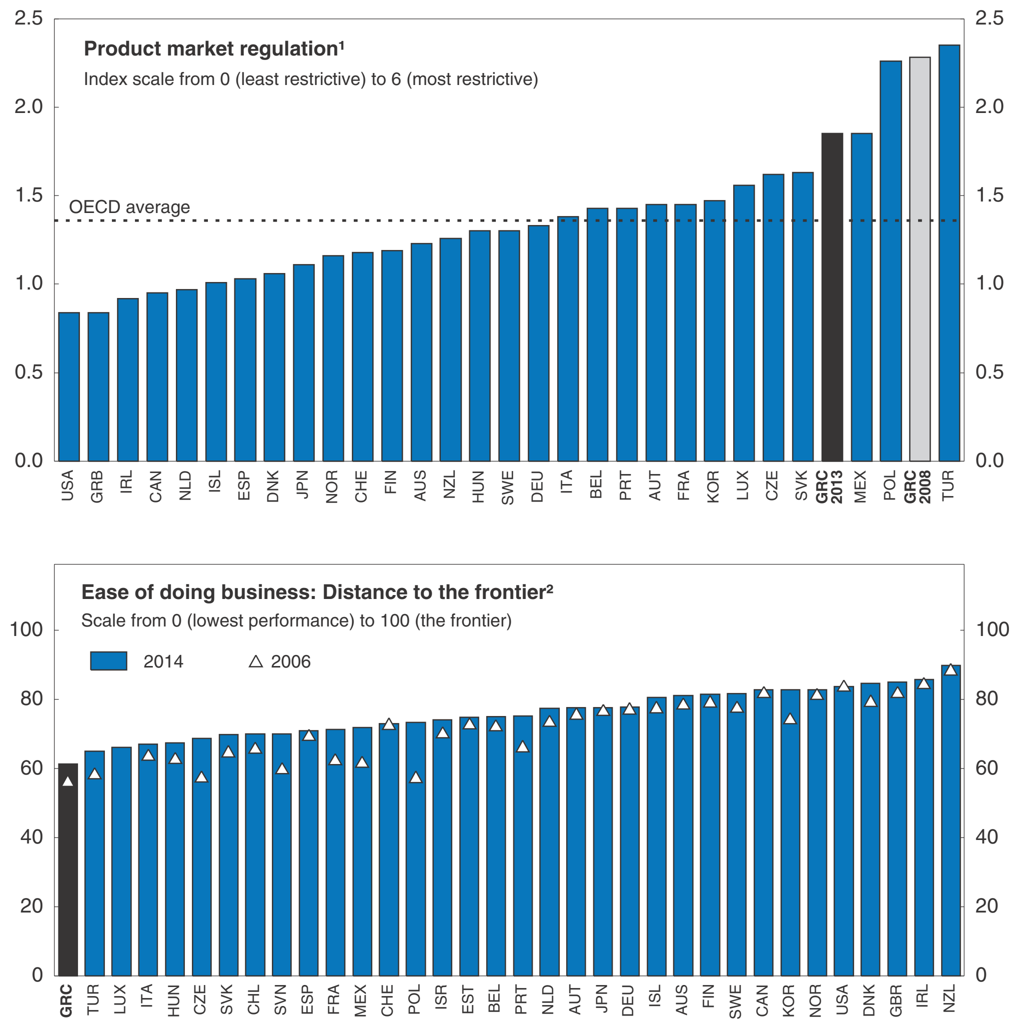
Despite this progress, product market regulation was still one of – if not the – most restrictive in OECD countries, according to the World Bank and the OECD at end-2012 (Figure 1.25). It is of course difficult to assess the situation precisely with these indicators, as they present a one-time snapshot, whereas the reforms are a continuing process. Moreover, these indicators measure only changes in legislation, without assessing their implementation, which in the past has often been deficient in Greece. These legislative changes, then, do not always have a positive impact on the daily doings of firms or take time to have an effect.

Despite progress much remains to be done to improve the business climate

Since 2011 new entrepreneurs have benefitted from a "one-stop shop" and an on-line national registry (GEMI) for all administrative procedures. To rationalise this process further, since July 2012 entrepreneurs have been able to create a new kind of company (IKE) that does not require any minimum corporate capital. The administrative costs involved in creating other legal business forms were also reduced by more than 60%, and some procedures have been streamlined with, for example, the abolition of the "social security compliance certificate". Despite these new measures, OECD indicators showed that the administrative burdens involved in creating a start-up were still heavier than the OECD average at end-2012 (Figure 1.26). For instance, the creation of the national registry GEMI failed to dispense with the involvement of multiple layers of authorities or state agencies in the process of setting up and operating a business (for example notaries, prefectures, etc.). Further simplifications seem also needed to reduce the role of lawyers in business creation and to move closer to OECD best practices. A new review of this process is under way with World Bank support, under the auspices of the Task Force, and should result in new adjustments in the coming months.

The authorities have also taken steps – although with varying degrees of success – to streamline and speed up licensing procedures, which had been holding up business development and investment. For instance, building permits seems to be granted relatively quickly and their costs look relatively low by international comparison (WB, 2013a). In the case of major investment projects, the authorities have introduced a fast-track procedure

Figure 1.25. **Overall product market regulation**



1. The reference year is 2008 for all countries. The PMR indicator for Greece for 2013 is preliminary and for purposes of comparability is calculated on the basis of the 2008 methodology. For more details, see OECD (2014).
2. This measure shows the distance of each economy to the "frontier" which represents the highest performance. An increase in the scale indicates that the economy is improving.

Source: World Bank, *Doing Business database*; OECD (2014), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economic Policy Papers*, forthcoming.

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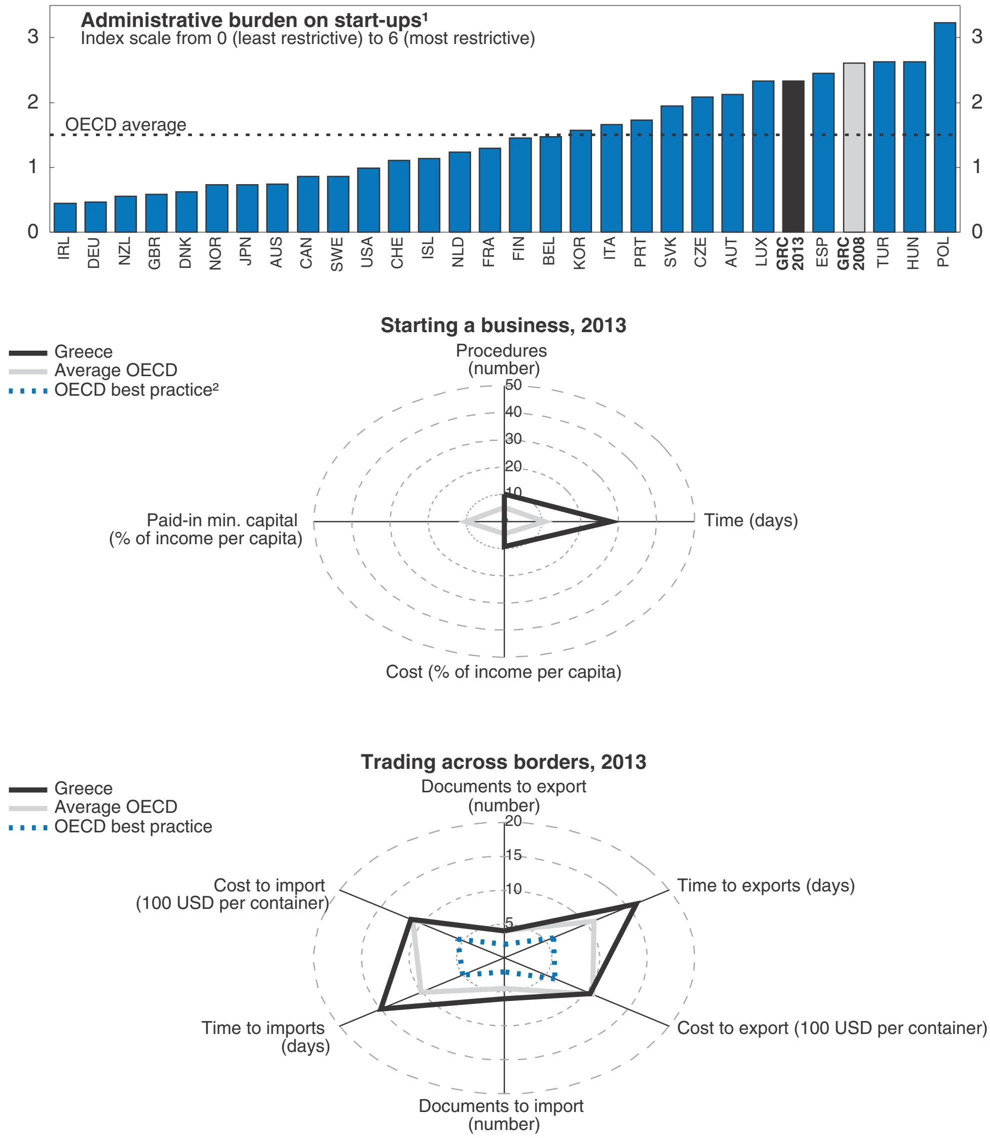
with a two-month deadline for granting the necessary licenses (OECD, 2011a). Since 2011, environmental and establishment licenses are issued immediately for low-nuisance manufacturing and technical activities (75% to 80% of applications) and an *ex-post* audit system has been instituted. However, the definition of "low nuisance" activities used for establishment licences is based on outdated criteria of generated power. Various agencies such as chambers of commerce or colleges of engineers can now deliver certain licenses. But these chambers seem to be confined to an issuance role rather than a decision-making role concerning the delivery of licences and this may lead to more rather than less bureaucracy, as obtaining a licence is contingent on a compulsory registration with some of these chambers. Overall, according to OECD indicators, regulatory and administrative

Figure 1.26. **Barriers to starting a business and to trade**



1. The reference year for the data on regulations is 2008 for all countries. The PMR indicator for Greece for 2013 is preliminary and for purposes of comparability is calculated on the basis of the 2008 methodology. For more details, see OECD (2014).
2. The OECD best practices for starting a business is difficult to identify in the panel, as it only requires one procedure performed in one day at zero cost and without minimum capital.

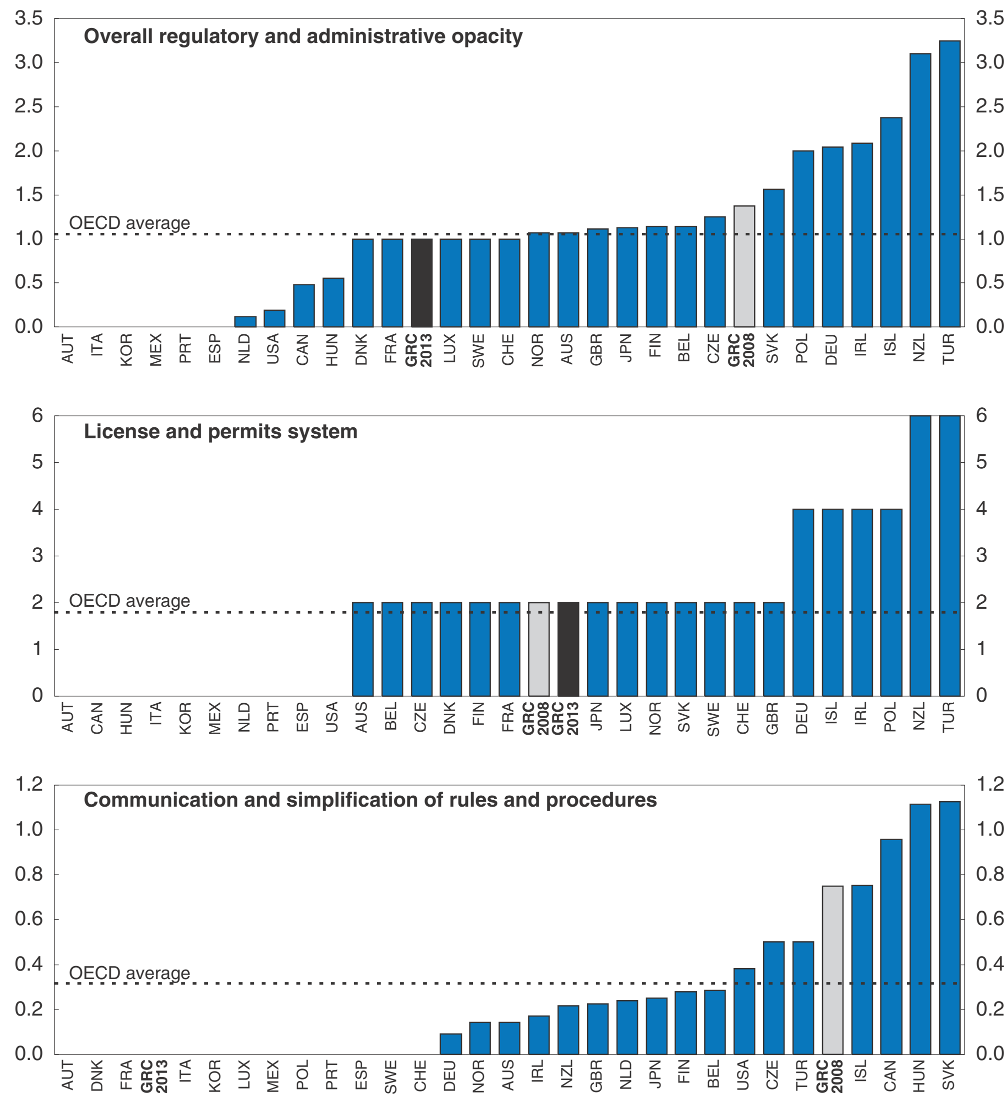
Source: World Bank, *Doing Business database* (*www.doingbusiness.org/data*); OECD (2014), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economic Policy Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888932957783

opacity seemed to be not worse than the OECD average in 2012, thanks to simpler procedures and, apparently, better communication (Figure 1.27). However, the licensing and permits system is still comparatively heavy and government efforts towards the simplification of bureaucracy on investment licensing with a strategic plan are thus welcome.

Figure 1.27. **Regulatory and administrative opacity**[1]

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



1. The reference year is 2008 for all countries. The PMR indicator for Greece for 2013 is preliminary and for purposes of comparability is calculated on the basis of the 2008 methodology. For more details, see *Source*.

Source: OECD (2014), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economic Policy Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888932958391

The current licensing procedure is complex and time consuming, with uncertain outcomes, outmoded land-use zoning and rigid approaches to regulation, for example (OECD, 2011a). Moreover, too little information is available about the adequate implementation and effectiveness of reforms adopted so far. To address this issue, the government announced a welcome strategic plan and Roadmap for investment licensing. A three-year plan is being developed with the support of the World Bank to more effectively lower these barriers to investment (EC, 2013c). This plan relies on a recent evaluation of licensing procedures, which helps identify the actual firms' needs of simplification of procedures (OBE, 2013). This new licensing system that this wide ranging project should put in place relies on the principle of self-compliance of regulation with monitoring check conducted by private inspectors rather than the state mechanisms after the licence has been granted (Manifava, 2013). Business parks are also included to the investment licensing project in order to steer investments into areas where licensing problems relating to environmental or planning issues are for the most part resolved (EC, 2013c). Complementarily, one could envisage a centralised system for granting licenses based on an on-line "one-stop shop" to meet firms' needs. Establishment of a time limit for the delivery of most licenses applying to investments could also be considered.

More must be done to facilitate exports

Rebalancing the economy requires helping Greek firms – SMEs in particular – to turn to exporting, by reducing bureaucratic barriers to international trade. The cost and time involved in export procedures at the pre-customs and customs stages in Greece are excessive. These formalities take on average 16 days and cost about 6 % of GDP per capita, compared to 11 days and 4% of GDP per capita on average in OECD (Figure 1.26). Information on controls imposed on exports is difficult to access, because it is scattered among multiple agencies and ministries. There is no standardised approach to customs clearance. The complexity of procedures leads to the use of specialised intermediaries, which further increases costs, particularly for exports of low value. Because of their small size, Greek SMEs are also handicapped when it comes to identifying foreign market opportunities and accessing the information needed to seize them. This obstacle could be lowered with Internet development, although Internet/broadband penetration remains low in Greece compared to OECD average.

In October 2012, a 2013-15 National Strategy for Trade Facilitation was designed to resolve these difficulties with the establishment of a national "single window for exports" by end 2015. The success of this project will be measured on the basis of key performance indicators, including comparisons with best practices in the OECD area. Some stages of the plan have already been put into effect, such as the introduction of an electronic customs declaration system and free access to the profession of customs agent. This strategy also calls for restructuring and reinforcing co-operation among public agencies to provide businesses with information on foreign markets and to facilitate their contact with foreign commercial partners. The creation of a "national brand" is also being planned. These welcome measures need to be carefully implemented, and they should be extended to cover import procedures, which are also tied up in red tape. This is important for integrating Greece more thoroughly into the global value chain, for attracting foreign investment and for reducing prices in Greece, because imports are often intermediate goods for exports (OECD, 2013).

The competition policy regulatory framework is becoming more efficient

Some important provisions were adopted in 2012 to enhance the effectiveness of the Hellenic Competition Commission (HCC). These amendments were designed to make the institution more independent, by uncoupling the appointment of its members from the election cycle and limiting the power of ministries to demand information (OECD, 2011a). Better harmonisation with the competition rules and practices of the European Union has also been instituted. Even more important, this reform established a mechanism whereby the HCC can define its priorities for serving the public interest by focusing on cases that are considered to have the greatest impact on competitive behaviour. Formerly, this institution had little discretion in its handling of complaints, which was done chronologically, and it spent too much time analysing insignificant merger cases.

Thanks to the reform, the HCC now has the legal capacity to set criteria for determining its working priorities. This includes introduction of a points system for objectively evaluating the degree of priority for each case. This change is important in legal terms, as it allows the HCC to reject certain complaints on grounds of priority, consistent with the thrust of European legislation.

It is still too early to assess the effectiveness of this reform. The validity of HCC decisions has yet to be tested by the higher courts. However, the initial effects of this reform are positive. An internal case-handling exercise in 2012 resulted in the dismissal of three times as many unfounded complaints as in 2011. Tests of the application of the points system have found that between 15% and 20% of cases can in fact be dismissed. This priorities system has also allowed the HCC to devote around 30% of its time to formulating opinions on proposed regulatory reforms, especially for opening up certain regulated professions. HCC is currently involved in a project led by the OECD which aims to screen legislation, in order to identify and eliminate regulatory barriers to competition in four sectors (agrifood, tourism, retail trade and building materials). The project uses the OECD's Competition Toolkit Assessment with a view to recommending concrete and specific regulatory changes in the four sectors by end-2013. Based on the final report of the project, the Authorities intent to introduce the necessary legal changes so as to eliminate the identified barriers to competition.

The HCC's recent efficiency gains are welcome and should reinforce the dissuasive effect of competition law, as there has also been progress in speeding up the handling of cases by the appeal courts. Nevertheless, additional regulatory amendments may be needed if HCC decisions are overruled by the higher courts, in particular when a complaint is rejected on grounds of priority. It would also be useful to assess the impact of this new system in the next two or three years in order to ensure that it is fulfilling expectations and is not generating limited but more frequent instances of anticompetitive behaviour.

Sectoral reforms would open new growth opportunities

The liberalisation of regulated professions is unfinished

The authorities have undertaken to eliminate specific barriers that have no justification and which are impeding the functioning of several sectors, beginning with professional services. Up to 2010, this sector, which embraces nearly 350 professions and represents a third of private employment in Greece, was more protected than in most other OECD countries (Figure 1.28). These limited entry of new competitors and imposed geographic restrictions, minimum prices or the mandatory use of certain services. Those restrictions have hobbled the productivity of professional services in comparison with other OECD countries, created rents, kept firm's size small, and held back innovation (KEPE, 2012). They have also added to the cost of living (e.g. through the regulation of real estate brokers and private schools), but their most important effect has been to exacerbate intermediary expenses and transaction costs for firms in other sectors of the economy (e.g. regulation of lawyers, customs brokers, accountants, architects, engineers and dockworkers). It is estimated that the knock-on effect from the restrictions on lawyers' and architects' activities alone have an impact on output in other sectors representing 3.5 to 4 times the output of these two sectors (EC, 2012c).

The reforms planned to correct these shortcomings have been moving slowly and unevenly, depending on the profession, since the onset of the crisis. According to OECD indicators, the regulation of professional services was significantly loosened since 2008 at least on paper (Figure 1.28). However, the restrictions affecting the legal and engineering professions were still tighter than the OECD average at the end of 2012. Work on implementing this reform has speeded up since the autumn of 2012. A number of restrictions affecting access to or exercise of other professions such as antique dealers, tourist guides, veterinarians, stevedores for land and at ports, actuaries, geologists, engineers, oenologists, accountants etc. have been eliminated, as the HCC has suggested (EC, 2013b). At the beginning of 2013, nearly 75% of regulated professions were opened to competition, according to the authorities. However, much work remains to be done, especially in the domain of the secondary legislation regulating each profession. In 2013, the authorities plan for instance to revise the legal services code to abolish the prohibition on commercial advertising, to remove certain obstacles to access the legal professions and some of their privileges, and to eliminate the minimum salary for salaried lawyers.

To date, the benefits from these regulatory adjustments have been modest. The prices of certain professional services have dropped (Figure 1.29). However, despite the recession, there has been little or no adjustment for important services such as those of cargo handling, accountants or freight transport. This no doubt reflects in part the delays in implementing the reforms. Yet it is quite possible that the liberalisation efforts were sometimes inadequate. Strengthening competition in many professions often depends on very specific measures, some of which may have escaped the authorities' attention. In the case of chartered accountants, for example, the elimination of minimum fees could well have no effect on the price of their services if the provisions imposing some minimum number of audit work hours remain in force (KEPE, 2012). Positive fallout from these measures will be all the greater as they will stimulate significant productivity gains and price reductions. The latest analyses suggest that national income could increase between 0.4% and 2.1%, depending on the scope of the price cuts for the services (KEPE, 2012).

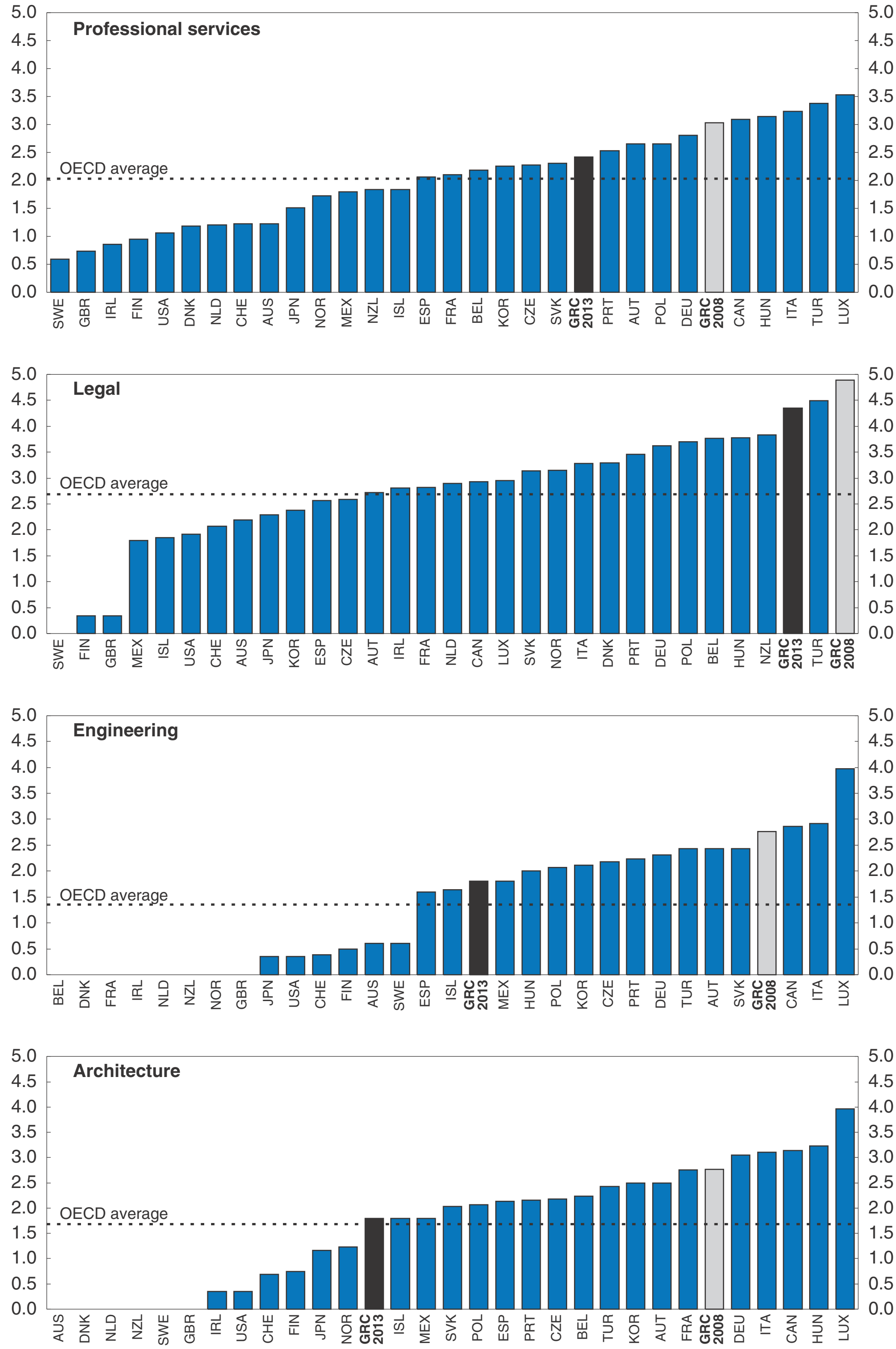
Overall, it is on the basis of concrete results, measured by changes in prices, the number of participants in the market and their behaviour, that the success of these reforms will have to be judged. From this perspective, the authorities have wisely improved information to the public concerning these regulatory amendments, by publishing them on the Internet. The planned assessment, by end-July 2013, of the measures adopted on the number of entrants and the prices of services in the 20 most important regulated professions is also welcome. This initiative should provide the opportunity to implement a series of tools and indicators, for an on-going assessment of the concrete effectiveness of the reforms in terms of prices and employment, and to identify any need for further adjustments.

Further reform progress is needed in the retail sector

The steps taken since 2010 to rationalise and modernise regulation of the retail sector, which was among the most restrictive in OECD countries prior to the crisis (Figure 1.30), are expected to move forward in 2013. In July 2013, legislation was adopted liberalising Sunday opening for small retailers (provided they obtain prefectural agreement within three months of the law being passed), and allowing larger stores to do business on seven Sundays during the year. The authorities have also increased the number of seasonal sales from two to four, which is more in line with the regulations in other European countries.

Figure 1.28. **Regulatory barriers in professional services**[1]

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

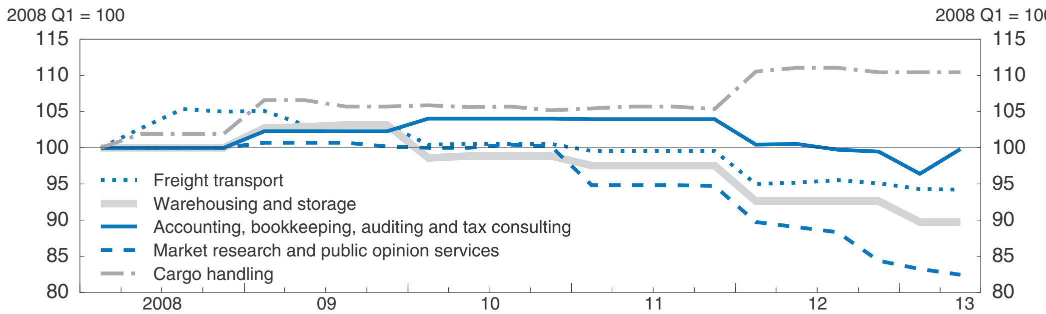


1. The reference year is 2008 for all countries. The PMR indicator for Greece for 2013 is preliminary and for purposes of comparability is calculated on the basis of the 2008 methodology. For more details, see *Source*.

Source: OECD (2014), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economic Policy Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888932958410

Figure 1.29. **Price[1] adjustment in selected business services**



1. Proxied by the producer price index.
Source: ELSTAT.

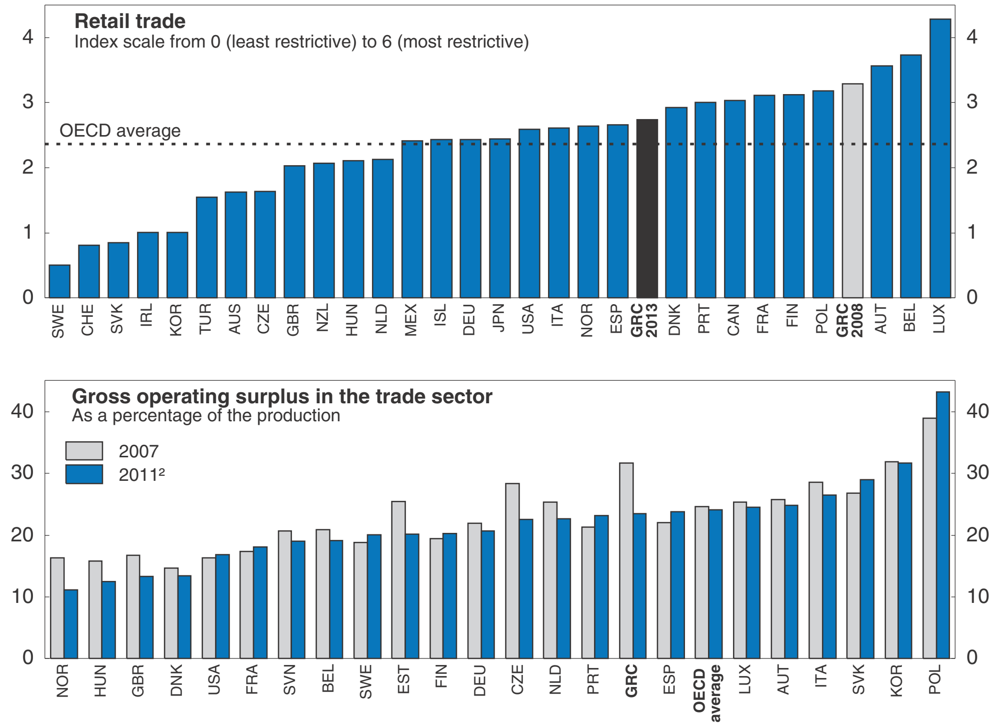
StatLink http://dx.doi.org/10.1787/888932958429

These changes are welcome but need to go further, as acknowledged by the authorities. For instance, by ministerial decision, the government has recently replaced the former system of fixed mark-ups for over-the-counter medical products by a system of maximum mark-ups for wholesale and retail prices (EC, 2013b). The ex-factory prices were not addressed in the new legislation, leaving room for interpretation and legal uncertainty on the final price. It also intends to allow supermarkets to sell some non-prescription medications such as vitamins, although draft legislation remains to be prepared in both these domains. Lastly, the authorities stand ready to consider further proposals for improving competition in the retail sector, after the completion of the regulatory evaluation using the OECD Competition Toolkit.

Improving the performance and the productivity of the retail sector is important, given its weight in the economy (10% of employment and 7% of GDP) and to ensure that lower producer prices are reflected at the consumer level. There are already some positive signs in this connection. The high mark-ups that prevailed before the crisis have been reduced, although the recession has no doubt also played a role (Figure 1.30). At the same time, OECD indicators reveal some softening of retail trade regulation (Figure 1.30). Supermarket sales of private label products, which are less expensive, have been rising, doubling their share in five years to more than 14% in 2012 (IRIgroup, 2012). This share is however well below the European average (36%).

There is still a good deal of room to enhance efficiency in this sector. The average productivity level is some 30%-40% lower than the EU average, which in turn is well below that of the USA (McKinsey, 2012). To make up this gap and reinforce the benefits from measures already taken or announced, the authorities should encourage the establishment of discounters, which are now underrepresented in Greece, with a market penetration rate of 6% compared to an average of 13% in Europe (McKinsey, 2012). This calls for facilitating the establishment of new points-of-sale by replacing the system of advance licenses with a mechanism for notification and *ex-post* verification, as was suggested in the 2011 *Survey* (OECD, 2011a). As an additional initiative, comparative advertising could be more encouraged to foster a cultural change more favourable to competition. It would be useful to identify and remove potential obstacles to such advertising, which is authorised by law but little used in comparison with other OECD countries. In this regard, it would probably help to review and ensure that the legally imposed criteria of objectivity and verifiability for comparative advertising are not too restrictive.

Figure 1.30. **Regulatory barriers in retail sector**[1]



1. The reference year is 2008 for all countries. The PMR indicator for Greece for 2013 is preliminary and for purposes of comparability is calculated on the basis of the 2008 methodology. For more details, see OECD (2014).
2. Or latest available year.

Source: OECD (2014), "The 2013 Update of the OECD Product Market Regulation Indicators: Policy Insights for OECD and non-OECD Countries", *OECD Economic Policy Papers*, forthcoming; OECD, *STAN database*.

StatLink http://dx.doi.org/10.1787/888932958448

An efficient transport sector is key to boosting growth in Greece

The quality and the competitiveness of transportation networks are important for exploiting the country's comparative advantage in tourism and promoting economic development throughout the territory, including its many islands. Efficient transport infrastructure is also key to taking better advantage of Greece's geographic location at the crossroads of Europe, Asia and Africa. The country has enormous potential as a logistics hub for international trade between Asia, the Middle East, South Eastern Europe and the rest of the EU.

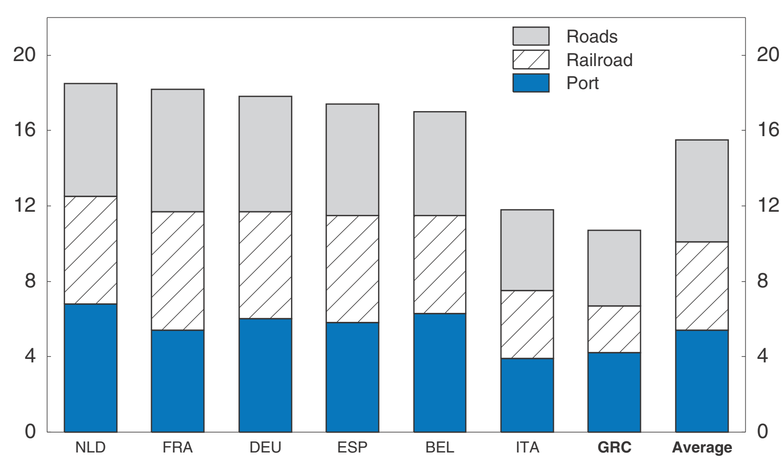
Since 2010, there has been significant progress in lifting obstacles and improving transport operations, for example in road haulage and maritime transport, and further changes are underway to boost efficiency in railways, ports and regional airports. This includes taking steps for strengthening the power of independent regulators and large-scale privatisations (EC, 2013a).

The impact of reforms adopted so far varied by sector, but their positive effects should become more apparent as the reforms progress. The benefits of liberalisation in road haulage and the occasional passenger transport have yet to make themselves felt. Very few licenses have for instance been granted to new companies in these two sectors since they were liberalised, although the lack of data on price and employment trends makes it difficult to conduct a serious assessment of recent reforms. However, some barriers seem to have remained in this sector (OBE, 2013). More promising results have been recorded in the maritime sector, where the number of cruise ship passengers at the Port of Piraeus was up by nearly 25%, year-on-year, in the first quarter of 2013. As well, stevedoring activities have expanded strongly since privatisation and the transfer of management of part of the Port of Piraeus to the Chinese company COSCO in 2009. Between 2010 and 2012, there was a tripling of container traffic in this port, which saw its market share rise in the Mediterranean from 2% to 6% (NBG, 2013).

The potential for growth of port activities in Greece is considerable, especially in transit activities, i.e. the use of the port as a gateway to the land transportation network of the region. The development of the Piraeus Port was hitherto concentrated in the transhipment of containers between large vessels and smaller boats, with economic gains that are 4 to 5 times smaller than transit operations. Such operations, which are currently concentrated in the ports of northern Europe, are associated with stronger positive spillovers on the whole economy, including land transportation (NBG, 2013).

To seize the benefits of their geographic comparative advantage, Greek ports need to fill their gaps in terms of productivity and quality of land-based infrastructure compared to other major European ports (Figure 1.31). The authorities' strategy to attract private investment, develop public infrastructure, and improve the regulatory framework with the support of the World Bank can generate considerable benefits if it is pursued with determination. The recently signed agreement between Hewlett-Packard, COSCO and TRAINOSE, which would make the Port of Piraeus the transportation hub for all HP products bound for Central Europe, Eastern Europe, the Middle East and North Africa, shows that the country can make up for lost ground in competitiveness. Stepping up the pace of privatisation will not only attract significant investment but will also allow infrastructure organisation and management to benefit from private-sector experience and know-how.

Figure 1.31. **Quality of transport infrastructure**[1]



1. Each type of infrastructure is ranked between 1 and 7 according to executive opinion survey. A higher value indicates a higher quality.

Source: World Economic Forum, *The Global Competitiveness Report 2012-13*.

StatLink http://dx.doi.org/10.1787/888932957802

It will also be important to mobilise the public resources available at favourable terms through EU financing to improve the transportation network, including inter-modal links between maritime, rail and road transport. The authorities' efforts in this area are welcome. Public and private investments have a complementary role to play in boosting growth over the medium term (Égert et al., 2009). If port activities are well managed they could boost GDP by 2.5% by 2018 (NBG, 2013). However, this will require careful planning of public investments, with rigorous and transparent cost/benefit analyses and close supervision of the projects identified. Creating a specialised agency for this task, along the lines of Infrastructure Australia (OECD, 2012d), would serve to encourage proper use of public investment resources, to help define priorities objectively, and to strengthen the Greek capacity to absorb EU structural funds.

The plan to speed up reform in the energy sector is welcome

Reforms in the energy sector have been moving too slowly, despite the efforts made since the launch of the adjustment programme to respond to the demands of the Third EU Energy Package. Electricity and gas markets are still dominated by two public enterprises, Public Power Corporation (PPC) and Public Gas Corporation (DEPA). In 2012, the PPC still controlled 70% of power production and all of power distribution. The entry of new competitors into this market is difficult because of the low retail price for electricity set by the Ministry of Energy for small-scale consumers, including SMEs. In the gas area, DEPA imports nearly 90% of the country's supply and still controls the transmission operator (DEFSA) as well as all gas distribution.

The shortcomings in the energy sector, together with the economic crisis, sparked serious liquidity problems for PPC and DEPA in 2012. The number of unpaid power bills rose sharply, partly as a result of inclusion in these bills of a real estate tax that the PPC was supposed to collect. The financial problem was aggravated by the cumulative deficit in the management of generous subsidies under the Renewable Energy Scheme (RES), especially for photovoltaic installations. The RES deficit exceeded EUR 300 million at the end of 2012 and, in the absence of new corrective measures, it would rise to EUR 1.7 billion by the end of 2014 (EC, 2013b).

Emergency measures have been taken to address this liquidity problem. The government has also liberalised the retail power prices for small consumers as of July 2013, except for vulnerable groups. Moreover, it has decided to stop collecting the real estate taxes with the electricity bill as of January 2014.

More importantly, the pace of reforms in the electricity sector has been stepped up. In July 2013, an ambitious plan has been adopted for unbundling ownership of the transmission operator (ADMIE) from PPC before the end of 2013. This plan also includes the creation and privatisation of a new, vertically integrated power utility through divestiture of 30% of PPC's production and distribution capacity. This new company, which should be operational in 2015, would have a generating mix similar to that of PPC, with hydroelectric as well as gas- and lignite-fired plants, and with access to lignite resources. The sale of an additional 17% of PPC shares, now held by HRADF, is also planned for the first half of 2016. At the same time, although an initial tentative of privatisation of the gas company (DEPA) failed, the transmission operator (DEFSA) was privatised in the second quarter of 2013.

The numerous reforms recently adopted or announced are ambitious and, generally, go in the right direction. The PPC restructuring and privatisation programme is particularly welcome for boosting competition and efficiency in the power sector. The PPC has significant margins for productivity gains or cost reductions, estimated at 10% to 15% (McKinsey, 2012). However, in the current absence of genuine competition, the full liberalisation of retail electricity prices from July 2013 could generate rent for the power utilities, although this risk should be limited by the increase in the number of unpaid power bills that are likely to result, cutting into the power companies' revenues. Nevertheless, this argues in favour of swift implementation of the planned restructuring and privatisation programme, which should lower power generating costs and foster competition.

The planned privatisations in the gas sector should encourage greater investment, but it would be good to accompany these changes with measures to enhance competition. Steps to encourage the emergence of a competitor to DEPA as gas supplier would be desirable. The Trans-Adriatic Pipeline (TAP), bringing gas from Azerbaijan to and across Greece, which was recently approved, provides an opportunity to boost competition in the supply area. The authorities should also consider ways of strengthening competition in gas distribution. Generally speaking, a competitive energy market could be an asset for developing this sector over the medium term, especially if the prospecting now underway for gas deposits in Greece's Mediterranean economic zone were to show promise.

Renewable energy scheme should be properly designed

Subsidy schemes to producers of renewable energy, and of photovoltaic energy in particular, need to be reviewed. Higher prices for non-renewable energy to finance the RES deficit would be justified as a way of financing the subsidies and they would encourage a cutback in CO_2 emissions over the medium term. However, such increases would also reduce households' real incomes, thereby weakening demand and growth in the short term. Another challenge is to take into account the technological and commercial developments that are lowering production costs for these forms of energy, so as to preclude the creation of rents for green energy producers while avoiding abrupt changes that would jeopardise the profitability of investments already made. From this viewpoint, the authorities are right in their decision to review the renewable energy financing system on a regular basis.

Box 1.2. **Policy recommendations for strengthening growth**

Recommendations to improve the functioning of the public sector

- Step up the fight against tax evasion by stopping tax amnesties and identifying and punishing evaders.
- 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.
- Improve the judicial system by overhauling and streamlining the civil code and making more use of out-of-court mediation. Develop websites and online facilities to accelerate judicial procedures.
- Further enhance the efficiency of public administration, *inter alia*, through the development of e-governance and the evaluation of staff performance based on clear individual objectives.
- Over the medium term, consider ending the generalised practice of lifetime employment guarantees for civil servants.

Box 1.2. Policy recommendations for strengthening growth *(cont.)*

- 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.
- 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.
- Provide adequate financial and regulatory resources 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. It should use this work as a platform for a more comprehensive implementation of the 2012 Law on Better Regulation.
- Improve data collection and dissemination to better monitor implementation and outcomes of structural reforms.

Recommendations to improve functioning of product markets

- Accelerate simplification of licensing procedures and requirements. Further reduce administrative burdens for start-ups. Streamline administrative procedures for exports and imports.
- 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.
- 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.
- Accelerate privatisations, in particular in railways, regional airports and ports. Speed up the creation of a land registry (cadastre) and stabilise the tax environment, in particular property taxes.
- 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.
- Swiftly implement the planned creation and privatisation of new competitors in the electricity market. Further promote competition in the gas supply sector.

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Chapter 2

A fair sharing of the costs and benefits of adjustment

Poverty and income inequality have worsened since the onset of the crisis. While the design of fiscal measures has mitigated the burden sharing of fiscal adjustment, as the recession has deepened unemployment has risen, earnings have declined and social tensions have increased. Getting people back to work and supporting the most vulnerable remain priorities for inclusive growth and distributing the costs of adjustment equitably. Within the limited fiscal space this calls for continued reforms in targeting social support, especially housing benefits, extending unemployment insurance and introducing a means-tested minimum income. Sustaining universal access to good health care is also essential. Well-designed activation policies are important to bring the unemployed, especially the young, to work. At the same time, it is important to strengthen the effectiveness of the labour inspection to ensure full enforcement of the labour code. Decisive steps to contain tax evasion are also critical to social fairness. Reforms by the government in many of these areas are welcome and need to continue.

Taking stock of social developments

Social outcomes improved before the crisis as incomes rose

High growth in the decade and a half before the economic crisis improved key social outcomes (Box 2.1). Unemployment fell to the euro area average and employment increased, health status improved above the OECD average, infant mortality declined markedly, and education performance was enhanced (Figure 2.1). Social spending, including pensions, also rose closer to the euro area average, although at the expense of fiscal discipline in the most recent years (Chapter 1). Income inequality and relative poverty among the total population remained broadly unchanged between the mid-1980s and late 2000s, contrasting with the rising trends in much of the OECD (Figure 2.2). Alternative distributional indicators over the period 1986-2009 confirm these findings for Greece (Table 2.1).

Box 2.1. **Indicators to measure social outcomes in Greece**

The extensive informality and the large self-employment sector complicate measurement of social outcomes in Greece as non-responses in surveys tend to be higher for these sectors biasing estimates (Verma and Betti, 2010). Social outcomes are proxied by both distributional (income and poverty measures) and non-distributional indicators (including labour market and health indicators).

Distributional indicators:

- *Income inequality.* A number of summary statistics are used to assess the shape of income distribution:
  - *Gini coefficient.* Measures the extent to which income distribution among individuals or households deviates from a perfectly equal distribution (OECD, 2013a). The Gini index is probably the most popular summary statistic of inequality as it is widely available due to its easy computation and comparability across countries and over time. A zero coefficient characterises perfect equality, whereas a coefficient of one represents perfect inequality, that is, all income is held by one individual or household. At the same time, the Gini has well documented drawbacks: two very different distributions, and thus different inequality patterns, may yield the same Gini coefficient (see, for example, Bellù and Liberati, 2006); and the Gini is more sensitive to changes in the middle of the income distribution, rather than the extremes which are of more interest from a social welfare perspective (see, for example, Atkinson, 1970).
  - *The P90/P10 inter-decile ratio.* It is the ratio of the upper bound value of the ninth decile divided by the upper bound value of the first decile.
  - *The inter-decile share ratio S90/S10.* It is the ratio of the average equivalised income of the 10% richest of the population to the poorest 10%. The *inter-quintile share ratio S80/S20* measures the richest 20% of the population relative to poorest 20%. These measures (along with the P90/P10 ratio) focus on the tails of the income distribution.

Box 2.1. **Indicators to measure social outcomes in Greece** *(cont.)*

- *Poverty indicators*. Poverty measures are based on income thresholds (poverty lines) determined in absolute or relative terms. To facilitate and guarantee cross-country consistency, the OECD uses relative and "anchored" poverty lines based on observed equivalised household median disposable income:
  - *Relative poverty*. The share of people living in households below a relative threshold of income, often under 50% of median disposable income. Disposable income is "equivalised" by dividing it by the square root of household size to adjust for economies of scale in household spending.
  - *"Anchored" poverty*. The poverty line is fixed at 50% of median equivalised household disposable income in a base year, adjusted for inflation. In this chapter, the base year has been set to 2005 because it is representative of the period between Greece's entry to euro area and the onset of the economic crisis. This poverty indicator has some characteristics of an absolute measure, although it is sensitive to the choice of the base year.
  - *Poverty gaps*. The percentage by which the average income of the poor falls below the poverty line, measures the intensity of poverty among the poor. It is sensitive to the definition of the poverty line.
- *Wealth indicators,* showing the distribution of housing or other wealth.

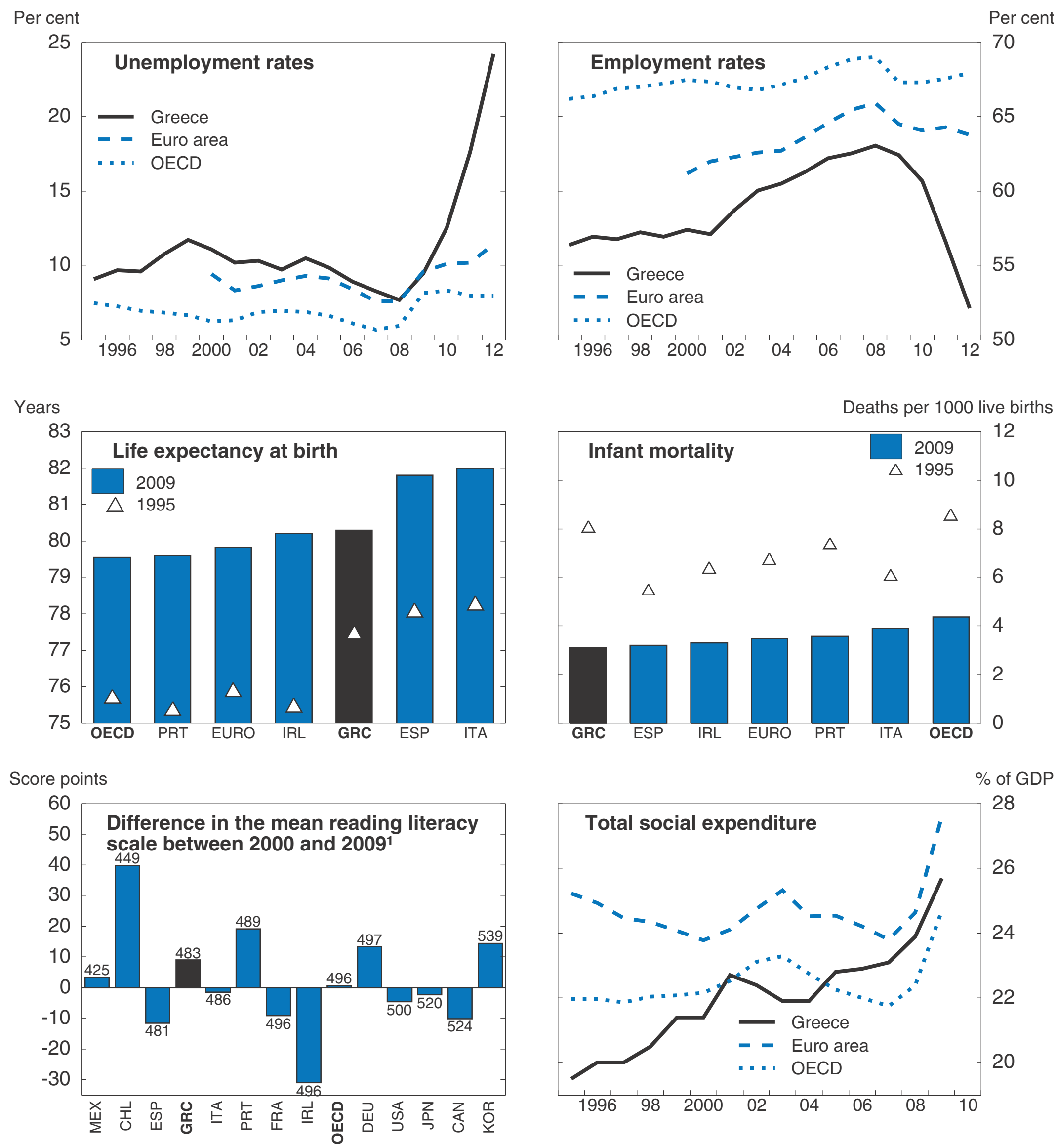
Non-distributional indicators

- *Labour market indicators*, including employment and unemployment rates, disaggregated by age, gender, occupational status, educational level and country of origin, and sectoral earnings data.
- *Social expenditure* in areas such as pensions, health, social welfare benefits.
- *Health indicators,* including data on health outcomes and access to health care services (often proxied by self-reported medical needs).
- *Education outcomes,* captured by results from the OECD Programme for International Student Assessment.

Household labour earnings are the main driver of market income inequality, as they are by far the largest component of household incomes (Figure 2.3). Wages and salaries explained about 60% of market income dispersion in 2009, with an additional 30% being explained by self-employment income, though the estimates should be treated with caution due to methodological limitations (see footnote of Figure 2.3). The contribution of self-employment income is above the OECD average reflecting, to a large extent, the relatively large share of such income in total earnings in Greece (accounting for about a third of total). As in OECD average, the tax and transfer system in Greece has a modest redistributive role (Hoeller et al., 2012) (Figure 2.4).

Recent OECD analysis suggests that families represent an important redistributive mechanism in Greece (OECD, 2011a; Hoeller et al., 2012). Indeed, moving from individual to household earnings reduces inequality, especially when individuals and households with no earnings are included (Figure 2.5). The improvement, however, is larger than in other OECD countries for which comparable data are available. OECD (2011a) finds that, in general, changes related to the labour market play a more important role than changes in household structure for explaining changes in household earnings inequality. Rising

Figure 2.1. **Social outcomes**



1. PISA mean scores on the reading literacy scales in 2009 for each country indicated on the bar.
Source: Eurostat; OECD, *Health Status and Social Expenditure databases*; OECD (2011), *Society at a Glance 2011: OECD Social Indicators*, Figure SS3.1.

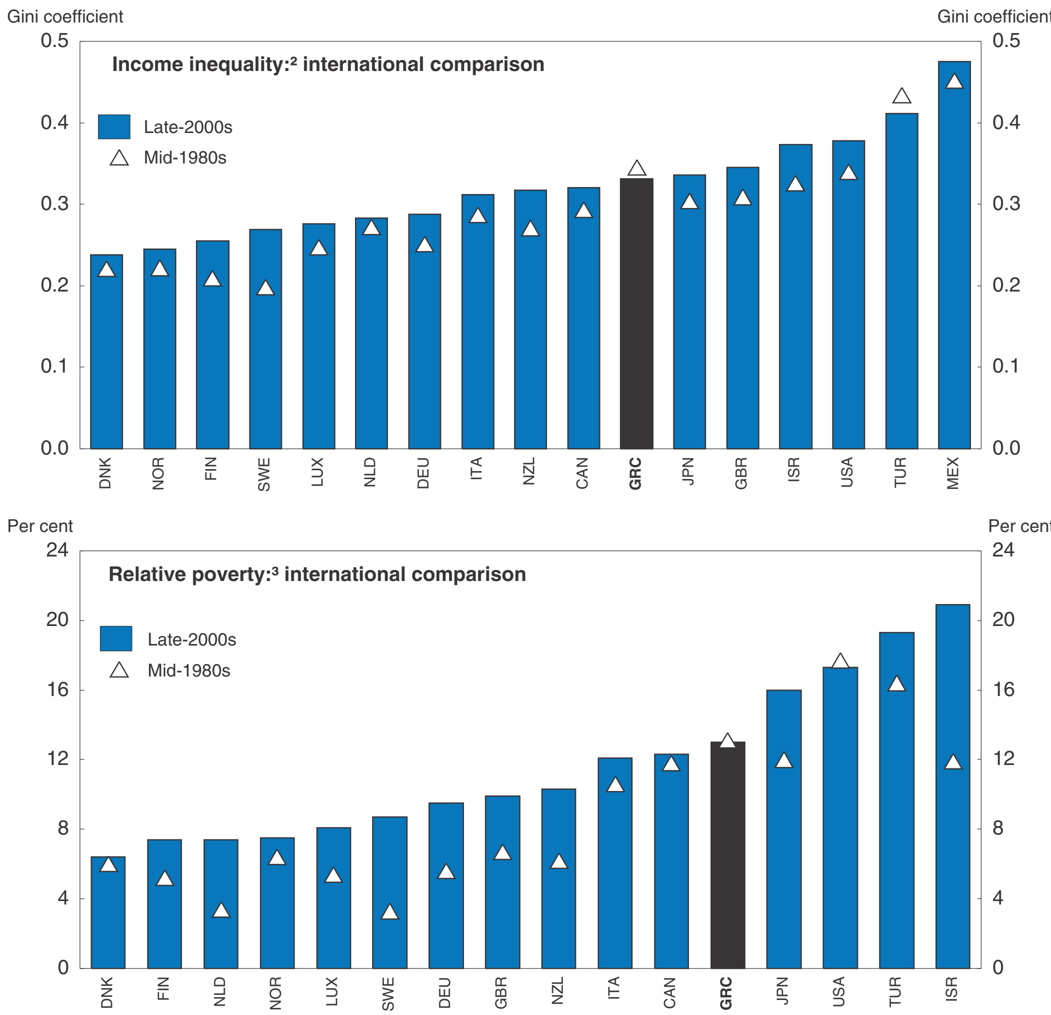
StatLink http://dx.doi.org/10.1787/888932958467

female employment rates exerted a sizeable equalising effect in Greece, as in almost all other OECD countries (Table 2.2).

Home ownership in Greece reduces inequality and poverty

Around three quarters of households own their main residence, which is higher than in other euro area countries, apart from Spain, Slovenia and Slovakia (ECB, 2013). Housing assets also appear to be widely spread. Although owner occupation increased with income, as elsewhere, its share among households in the bottom income quintile was 65% in 2009. High rates of home ownership are the result of tradition, as a house is a common form of

Figure 2.2. **Income inequality and relative poverty**[1]



1. Only OECD countries with data available in mid-1980s and late 2000s are shown on the chart. The reference year differs across countries. For Greece, it refers to 1986 for mid-1980s and 2009 for late 2000s.
2. Gini index of household disposable income (market income after taxes and transfers), total population.
3. Relative poverty rates after taxes and transfers (threshold of 50% of the median income).

Source: OECD, *Income Distribution database,* via *www.oecd.org/social/inequality.htm.*

StatLink *http://dx.doi.org/10.1787/888932958486*

intergenerational transfer in Greece. In addition, buying a house is generally seen as a low risk investment compared to other types of assets (Koutsampelas and Tsakolglou, 2008). Home ownership may also be seen as buffer against social risks, addressing shortcomings in the Greek welfare system (Hoekstra, 2005).

Research confirms the redistributive importance of imputed rents (monetary value of home ownership) in Greece. In particular, inequality and poverty decline when such rents are added to the standard notion of (equivalised) disposable monetary income (Koutsambelas and Tsakolglou, 2008). This reflects the fact that imputed rents tend to be more equally distributed than disposable income, especially among some low-income groups, such as the elderly, households headed by pensioners, and the poorly educated.

Table 2.1. **Alternative indicators for inequality and poverty**[1]

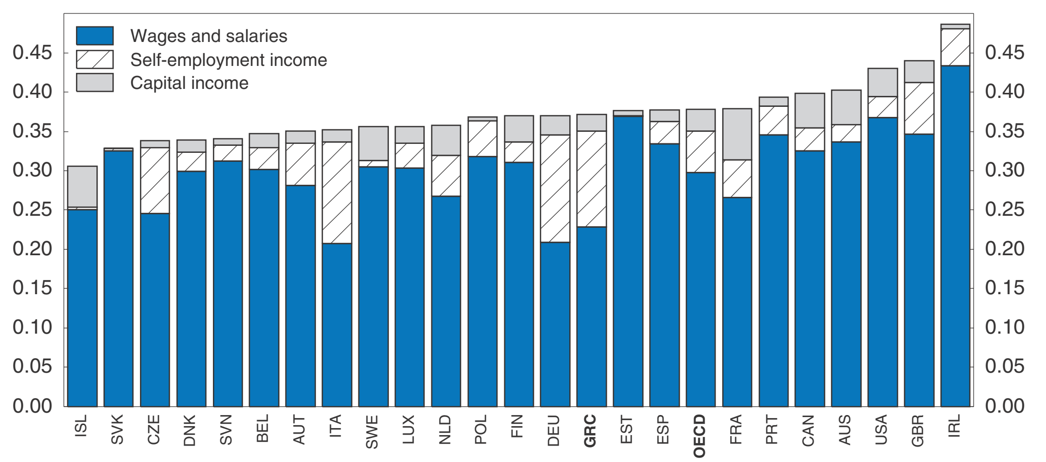
	1986	1994	1999	2004	2005	2006	2007	2008	2009	2010
Inequality measures										
Gini index[2]	0.345	0.345	0.354	0.330	0.340	0.339	0.330	0.329	0.331	0.337
P90/P10				4.5	4.7	4.7	4.4	4.4	4.3	4.6
S80/S20	6.2	6.2	6.4	5.7	5.8	5.9	5.7	5.6	5.6	6.0
S90/S10	11.5	10.9	11.5	9.6	9.8	10.2	9.5	9.4	9.5	10.8
Poverty measures										
Relative poverty (50%)[3]	13.1	13.5	13.2	12.3	13.0	13.4	13.9	13.3	13.0	14.3
Relative poverty (60%)[4]	19.5	21.6	20.5	19.5	20.3	20.3	20.5	20.0	20.9	21.5
"Anchored" poverty[5]				14.0	13.0	12.9	11.7	13.2	11.4	16.8
Poverty gap (50%)[6]	33.4	29.0	29.0	26.0	24.6	25.2	21.7	23.0	25.1	25.9
Poverty gap (60%)[7]	30.4	25.9	26.9	25.1	25.4	26.2	25.2	24.9	23.2	25.5

1. For a description of the measures see Box 2.1. Data refer to total population.
2. Gini index of equivalised household disposable income.
3. Relative poverty rates after taxes and transfers. Poverty line: 50% of median equivalised household disposable income.
4. Relative poverty rates after taxes and transfers. Poverty line: 60% of median equivalised household disposable income.
5. "Anchored" poverty rates after taxes and transfers. Poverty line: fixed at 50% of median equivalised household disposable income in 2005 and adjusted for inflation.
6. Poverty gap after taxes and transfers. Poverty line: 50% of median equivalised household disposable income.
7. Poverty gap after taxes and transfers. Poverty line: 60% of median equivalised household disposable income.

Source: OECD, *Income Distribution Database,* via *www.oecd.org/social/inequality.htm.*

Figure 2.3. **Contribution to overall household market income inequality**[1]

Late 2000s[2]



1. Market income (before taxes and transfers) refers to equivalised household income of working-age population. Contributions to overall income inequality are derived by multiplying the concentration coefficient of each income source with its weight in total market income. The concentration coefficients were calculated from income deciles by computing "pseudo-Ginis" (see Whiteford, 2008; and Joumard et al., 2012), which implies that, for each income component's distribution, individuals were ranked according to disposable income (taking into account taxes and transfers) rather than market income. This can affect the composition of the income components' deciles, and thus, the produced results. The conclusions derived by the figure, however, appear to be in line with the results of micro-analysis (OECD, 2011), in which individuals can be ranked by market income.
2. The reference year differs across countries. For Greece, it refers to 2009.

Source: OECD, *Income Distribution database,* via *www.oecd.org/social/inequality.htm*; OECD (2011), *Divided We Stand: Why Inequality Keeps Rising;* Joumard, I. et al. (2012), "Income Redistribution via Taxes and Transfers across OECD Countries", *OECD Economics Department Working Papers,* No. 926; Whiteford, P. (2008), "How Much Redistribution Do Governments Achieve? The Role of Cash Transfers and Household Taxes" in OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries.*

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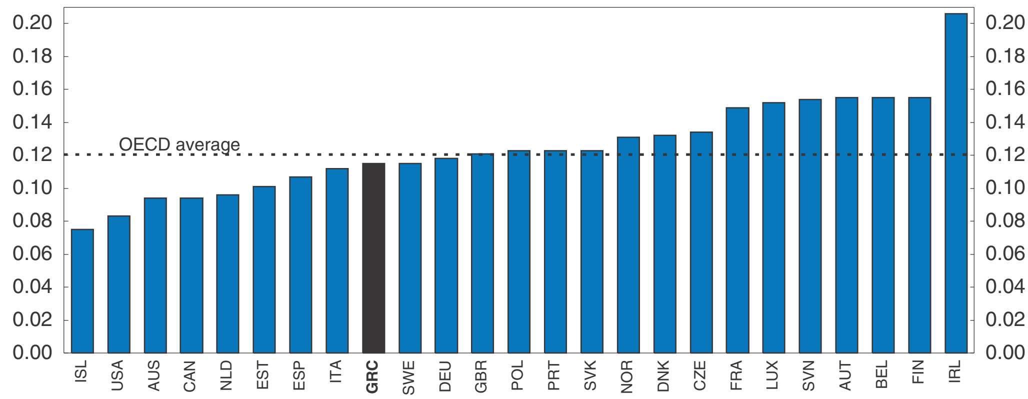
Figure 2.4. **Redistributive impact of taxes and transfers**

Gini reduction via taxes and transfers, late 2000s[1]



1. The Gini reduction is derived as the level difference between the Gini coefficient before taxes and transfers and the Gini coefficient after taxes and transfers, for working-age population. The reference year differs across countries. For Greece, it refers to 2009.

Source: OECD, *Income Distribution database,* via *www.oecd.org/social/inequality.htm.*

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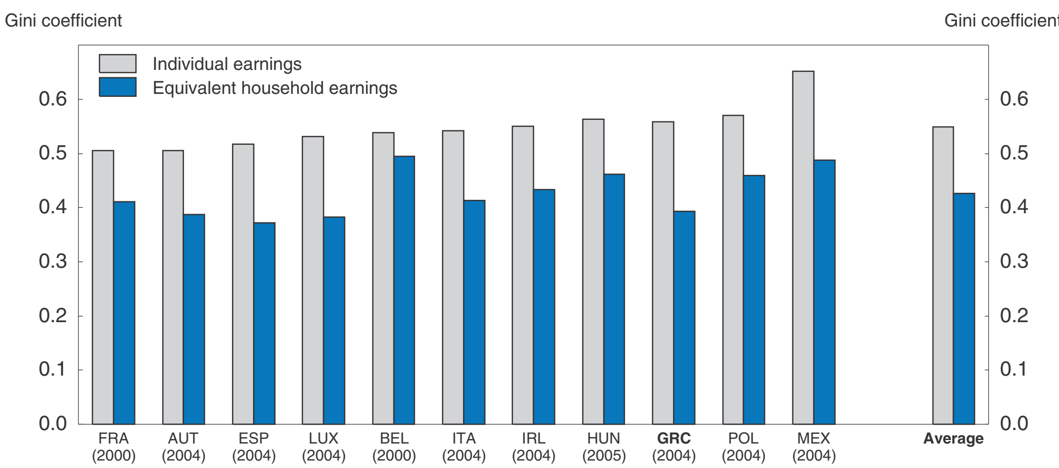
Figure 2.5. **Inequality developments at individual and household level**[1]



1. Samples are restricted to the working-age population (25-64 years old) living in a household with a working-age head. Equivalent household earnings are calculated as the sum of earnings from all household members, corrected for differences in household size with an equivalence scale (square root of household size). Figures refer to countries reporting only net earnings. For results for countries reporting gross earnings, see *Source*.

Source: OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, Figure 5.1.

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Housing assets also reduce wealth inequality

As in other European countries, net wealth (defined as the difference between total assets and total liabilities) is more unevenly distributed in Greece than net income. However, the discrepancy is lower than in most of these countries (Figure 2.6). In 2006-07 Greece had one of the lowest wealth inequality coefficients across older households (50 and over), even though it ranked high in terms of net income inequality (Skopek et al., 2011) (Figure 2.6). Data for the late 2000s, based on ECB (2013), tend to support this conclusion: comparing the mean net wealth owned by the richest 20% of the income distribution to that held by the poorest 20%, indicates that Greece scores better than most

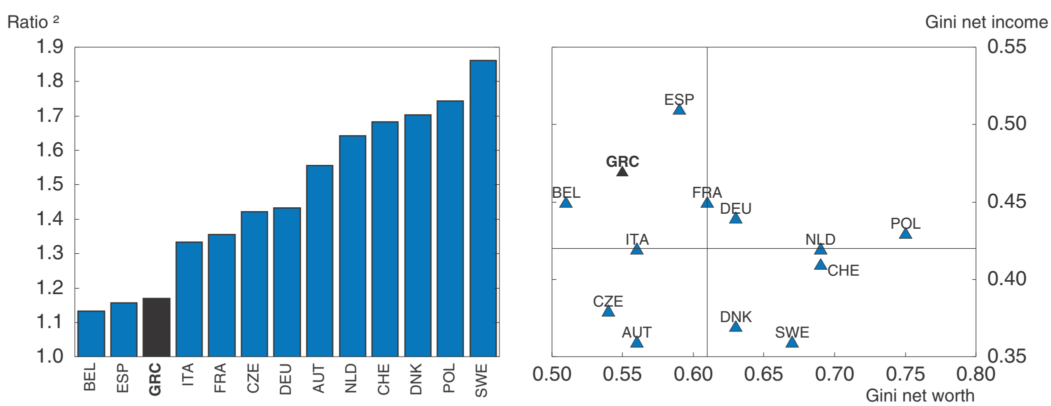
Table 2.2. **Contribution of labour market and demographic factors to changes in household earnings inequality**

Country	Men's earnings disparity	Men's employment	Women's employment	Assortative mating	Household structure	Residuals	Changes in Gini (↘)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
AUT (94-04)	1.22	-0.72	-1.10	0.21	-0.01	1.31	0.92
BEL (85-00)	2.00	1.00	-2.58	0.83	-0.50	1.26	2.03
ESP (90-04)	0.83	-0.18	-1.58	1.65	0.17	-0.23	0.65
FRA (84-00)	2.36	-0.01	-2.30	0.29	0.18	2.36	2.88
GRC (95-04)	**-0.05**	**0.21**	**-1.67**	**1.11**	**0.04**	**0.69**	**0.33**
HUN (94-05)	-1.66	-2.10	0.33	-0.29	0.35	1.12	-2.25
IRL (94-04)	-0.50	0.20	-1.51	0.26	0.10	0.10	-1.34
ITA (87-04)	2.13	0.52	-0.82	1.34	0.03	0.63	3.84
LUX (85-04)	2.18	0.33	-1.96	2.21	0.28	5.55	8.59
MEX (84-04)	0.14	0.20	-0.96	1.37	0.58	0.43	1.76
POL (92-04)	3.02	-0.60	-0.25	1.06	0.61	3.78	7.62

Source: OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, based on data for Figure 5.9.

Figure 2.6. **Inequality in net income and net worth**

Gini in thousand EUR, PPP-adjusted and weighted,[1] 2006-07



1. For more details, see *Source.*
2. Ratio of Gini net worth over net income.

Source: Skopek, N., S. Buchholz and H.-P. Blossfeld (2011), "Wealth Inequality in Europe and the Delusive Egalitarianism of Scandinavian Countries", *Munich Personal RePEc Archive (MPRA) Paper,* No. 35307, July, Table 4 (*http://mpra.ub.uni-muenchen.de/35307/*).

StatLink http://dx.doi.org/10.1787/888932958562

countries in the ECB survey (3.7 compared to 6.1 for the euro area, on average). This pattern may partly be explained by the importance of housing wealth (net value of primary residence) in the portfolio of households in the low and middle quartiles, where the share exceeds 80% of net wealth (Table 2.3). Housing wealth can be considered as an "equalising" component of wealth, at least from a "pure" relative inequality approach, as even though its value increases with wealth, its share in portfolios tends to be smaller in rich households (Azpitarte, 2010).

Wealth inequality may have trended down in the decade before the global financial crisis, judging by the evolution of property prices. House prices rose by over 90% in real terms over the period, below the sharp rises in Ireland and Spain, but above the euro area

Table 2.3. **The distribution of housing wealth in EU countries**

Quartiles	Net worth[1]			Share of primary residence[2]		
	25	50	75	25	50	75
Austria	31	131	253	7	61	81
Belgium	123	245	413	68	94	74
Denmark	42	158	338	53	58	45
France	91	234	433	36	85	72
Germany	21	136	288	0	70	76
Greece	**65**	**132**	**245**	**82**	**86**	**77**
Italy	70	190	348	83	83	85
Netherlands	14	171	335	0	74	78
Spain	124	229	420	92	91	68
Sweden	40	135	292	0	56	73
Switzerland	53	207	454	19	57	46

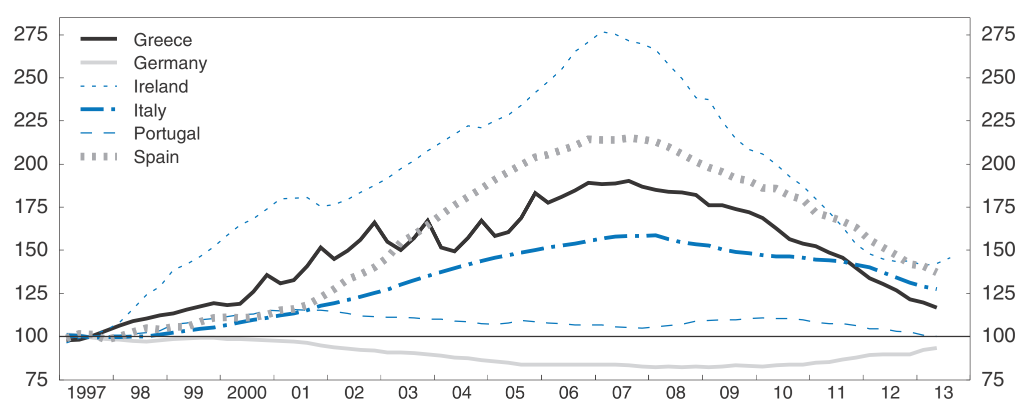
1. Data refer to households aged 50 and over in 2006-07 and are expressed in 2005 EUR million, PPP adjusted.
2. Net value of primary residence as a share of net worth

Source: Haliasos, M. (2012), "Real Estate as Part of the Wealth: International Differences and the Role of Innovation", in *The Housing Market in the Recent Financial Crisis*, Bank of Greece, Athens (in Greek).

average (Figure 2.7). Higher incomes, lower interest rates and demographic factors, such as the increase in the number of Greek households due to their smaller size and the inflow of immigrants, have all contributed to these developments (OECD, 2009). Rising house prices may have served to narrow the wealth distribution, given the heavy weight of housing assets in the total assets of the lower income households in Greece.

Figure 2.7. **Real house prices**

Index 1997 = 100



Source: OECD, *House Prices database*.

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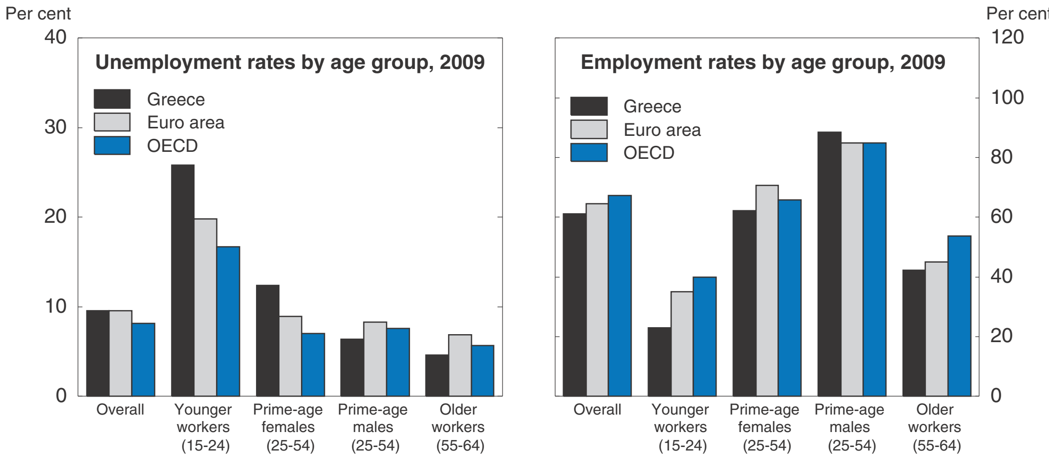
Some groups appear to have benefited less from the boom in the run-up to the crisis

While social outcomes improved before the crisis, disparities across population groups persisted, notably with large differences in employment rates between prime-age men and women, and especially, youths (Figure 2.8). There were also visible divides between private and public sector employees (Box 2.2) and between workers in formal and informal jobs. Despite an improvement in living standards, relative poverty affected about 13% of the

Figure 2.8. **Employment disparities remained before the crisis**



Source: Eurostat; OECD, *Labour Force Statistics database.*

StatLink http://dx.doi.org/10.1787/888932958600

Box 2.2. **The impact of the public sector on inequality**

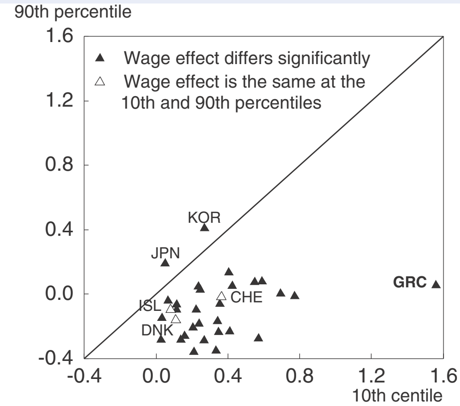
Civil servants accounted for a larger portion of total employment (17%) in Greece than the euro area or OECD average (15¼ per cent) in 2009 (OECD, 2011b). A study by the ECB indicates that the ratio of public to private compensation per employee was between 1.2 and 1.3 in the period 1995-2009 (Giordano et al., 2011). While this reflects, in part, the higher qualifications and age structure of public sector employees, there nevertheless remains a 16% wage differential for workers with similar characteristics, which increases to over 20% when measured on an hourly (rather than monthly) basis, as normal hours of work are much shorter in the public than in the private sector. The wage differential is noticeably larger for employees at the lower quintiles, especially for women, with the gap declining along the wage distribution (Giordano et al., 2011; Papapetrou, 2006). In this context, low-wage public servants earn a higher wage "premium" (i.e. *ceteris paribus* are better paid) relative to their skills compared to higher-wage counterparts (Giordano et al., 2011). Papapetrou (2006) concludes that earnings differentials in the low quintiles cannot be attributed to individual characteristics, whereas at the highest quintiles, pay differentials reflect differences in the employee's skills.

The higher average level and lower dispersion of the public sector earnings has implications for the overall earnings inequality among workers, according to a recent OECD study. Fournier and Koske (2012) conclude, in particular, that a (marginal) rise in public employment would tend to raise earnings at the lower end of the distribution, while leaving those at the top broadly unchanged, thereby helping to reduce overall inequality (Figure 2.9). It should be noted that these are partial equilibrium effects, ignoring possible changes in the relative earnings of the public and private sector that would result from such shift. The impact is particularly strong for Greece compared to other OECD countries. It could be said, therefore, that expanding public sector employment in the pre-crisis period played a social role, though at the expense of efficiency. For a very long period, hiring in the public sector was driven by clientelism, though this is changing (Chapter 1). The fact that the public sector pay structure often favoured employees from more disadvantaged groups (for example women and new entrants) may have induced higher participation among these groups, reducing social exclusion (OECD, 2011a).

Box 2.2. **The impact of the public sector on inequality** *(cont.)*

Figure 2.9. **Impact of public sector employment**[1]

Effect on log earnings of a 1 percentage point increase in the share of public sector employment



1. Based on unconditional quantile regression estimates. A data point below (above) the 45 degree line indicates that a rise in the public sector employment share is associated with a fall (rise) in the 90/10 percentile ratio. For more details, see *Source.*

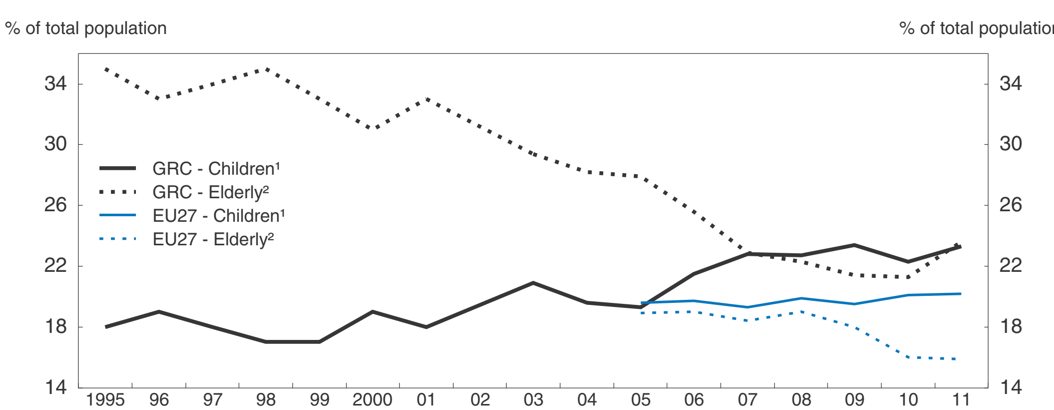
Source: Fournier, J.-M. and I. Koske (2012), "Less Income Inequality and More Growth – Are they Compatible? Part 7. The Drivers of Labour Earnings Inequality – An Analysis Based on Conditional and Unconditional Quantile Regressions", *OECD Economics Department Working Papers*, No. 930, Figure 11.

StatLink http://dx.doi.org/10.1787/888932958619

population in 2009 (Table 2.1), especially the unemployed, single parents, the elderly (aged 65 and over) who live alone, households with two adults and three or more dependent children, and those with heads of households not having completed primary school (ElStat, 2013). There was also a shift in poverty from the old to the younger generations. Increases in pensions from low levels reduced old age poverty between the late 1990s and late 2000s, similar to the trend in other EU countries (Figure 2.10). At the same time, child poverty increased, reflecting to a large extent a limited supply of

Figure 2.10. **Shifts in poverty from the elderly to the young**

At risk of poverty rate (60% of median equivalised income after transfers)



1. Less than 16 years old.
2. Over 65 years old.

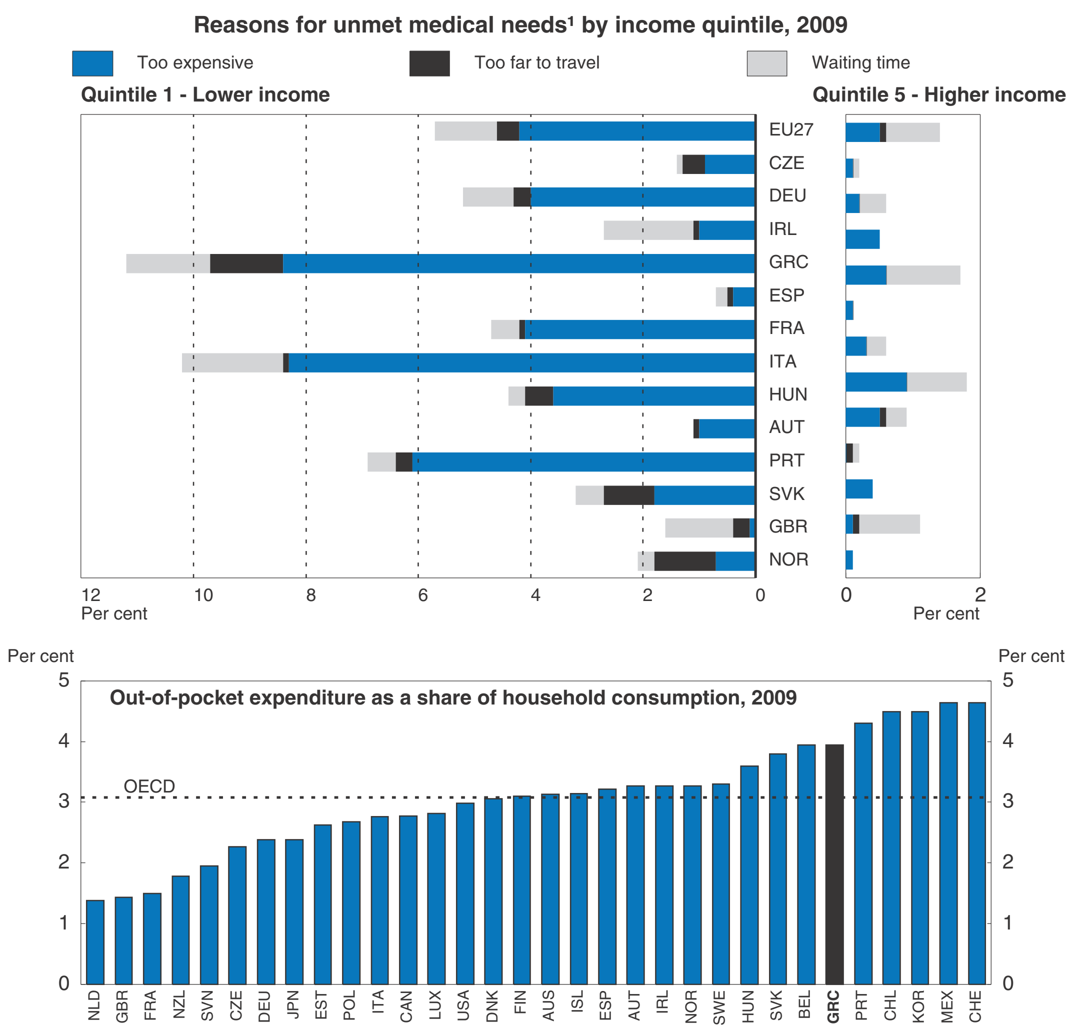
Source: Eurostat, EU_SILC.

StatLink http://dx.doi.org/10.1787/888932958638

adequately paid jobs for young workers, widespread undeclared work, and shortcomings in the social support system (Matsaganis, 2012; BoG, 2009). Whereas in the late 1990s the risk of poverty among the elderly was twice as high as among children, from 2006 onwards child poverty was higher than old age poverty. The increase was much higher than that seen in other EU countries. Rising child poverty is an issue of great concern given the potential adverse consequences it can have on health and on school performance, as well as future life opportunities (OECD, 2006a).

People at lower incomes also scored poorly in other social indicators, such as health care access, based on self-reported needs (Figure 2.11). Excessive treatment costs were the main reason for unmet care needs. Out-of-pocket health spending in Greece was in 2009 among the highest in OECD, exceeding similar expenditure in Spain or Italy. Population groups at a high risk of poverty and social exclusion (such as the older, immigrants, and the

Figure 2.11. **Unmet needs for health**



1. Based on self-reporting.
Source: Eurostat; OECD, *Health database*.

StatLink http://dx.doi.org/10.1787/888932958657

disabled) bore a disproportional impact of the financial burden of health costs (Altanis et al., 2008) (Figure 2.11). Informal payments to health care providers to ensure access to high quality services constitute an important part of out-of-pocket expenses, as discussed in the special chapter on health of the 2009 *Survey of Greece* (OECD, 2009).

The crisis has had severe social implications, reinforcing social polarisation

The job and income losses and weak social safety nets left a rising number of people with no income

Greece was ill prepared for the social impact of the crisis. Social spending, excluding pensions and health, at 4¼ per cent of GDP in 2009, was low, while complexity and poor targeting reduced its effectiveness in limiting poverty (Table 2.4). Social transfers (other than pensions) reduced relative poverty by only 3 percentage points over 2005 to 2009, compared to around 9 percentage points in the euro area, according to OECD estimates (Koutsogeorgopoulou et al., 2013). Poor targeting partly reflected heavy dependence on contributory benefits (e.g. based on social security contributions), which in 2010 covered 15% of the working-age population, almost twice the coverage of the non-contributory programmes (OECD, 2013b). The risks inherent in this structure were revealed by the crisis, as thousands of workers lost their jobs, and hence access to social benefits for themselves and their dependants. Some of the most vulnerable groups, such as the youth and a large number of poor families in need for housing support were not covered. On the other hand, some benefits, such as family allowances, were not targeted and benefitted rich and poor alike. Only 50% of beneficiaries belonged to the poorest 30% of the population (OECD, 2013b). Apart from pensioners there was no means-tested minimum income support for the most vulnerable (Leventi et al., 2013). Moreover, the welfare system suffered from poor administration and unequal standards and provisions across social funds.

Table 2.4. **Social welfare benefits excluding pensions and health**

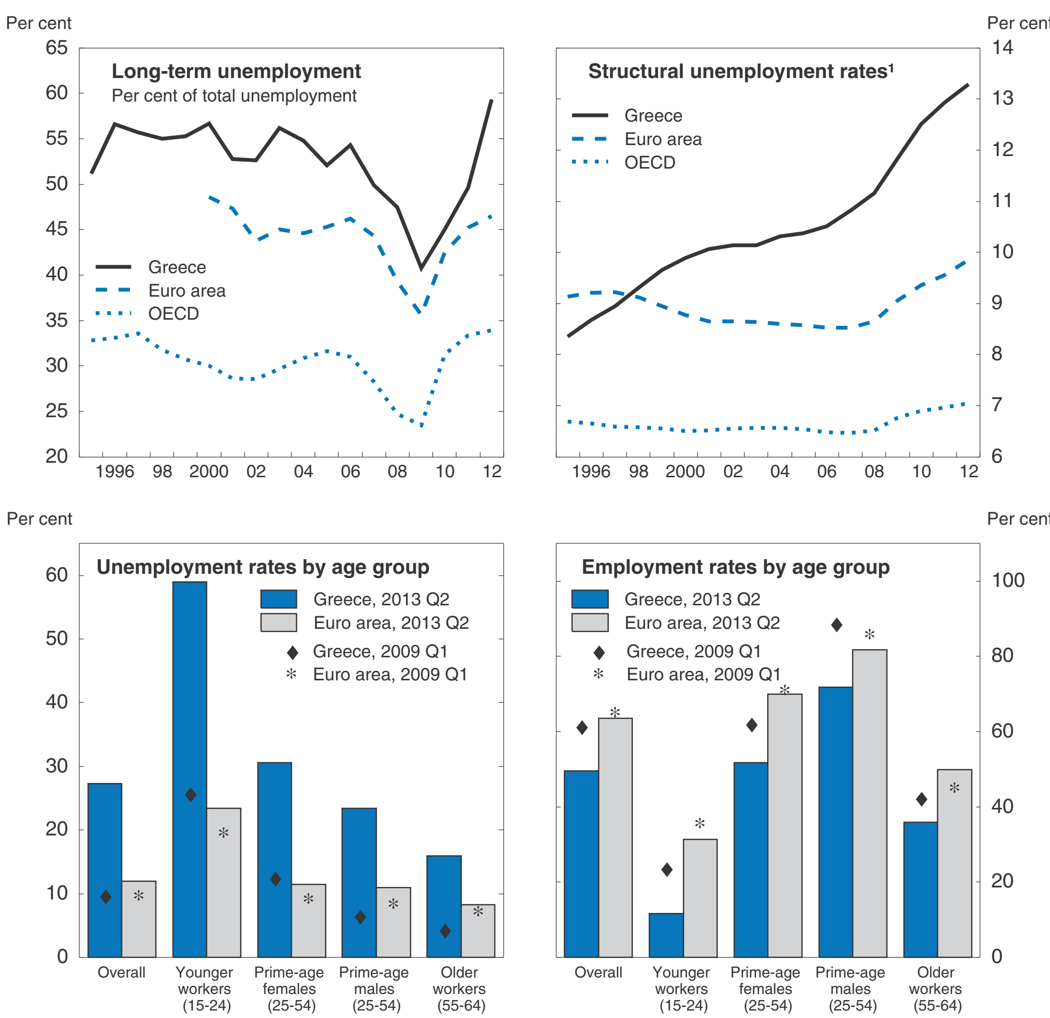
As a percentage of GDP, 2009

Country	Total excluding pensions and health	Unemployment	Family	Housing	Disability	Other
Austria	7.8	1.1	2.9	0.1	2.5	1.2
Belgium	11.4	3.7	2.8	0.2	2.5	2.2
Estonia	6.8	1.1	2.6	0.0	2.7	0.4
Finland	11.5	2.0	3.3	0.5	4.1	1.6
France	9.0	1.5	3.2	0.8	2.0	1.5
Germany	7.9	1.7	2.1	0.6	2.3	1.2
Greece	**4.3**	**0.7**	**1.4**	**0.5**	**1.0**	**0.7**
Ireland	10.9	2.6	4.1	0.3	2.4	1.5
Italy	4.8	0.8	1.6	0.0	1.9	0.5
Luxembourg	9.3	1.2	4.0	0.3	2.7	1.1
Netherlands	9.3	1.4	1.7	0.4	3.1	2.7
Portugal	6.0	1.2	1.5	0.0	2.1	1.2
Slovakia	5.4	0.7	2.0	0.0	2.0	0.7
Slovenia	4.9	0.5	1.3	0.0	2.2	0.9
Spain	9.1	3.5	1.5	0.2	2.7	1.2
OECD	**7.2**	**1.1**	**2.3**	**0.7**	**2.4**	**0.8**

Source: OECD, Social Expenditure database.

The sharp rise in unemployment has affected all age groups, but in particular the young (Figure 2.12). Even the traditionally resilient heads of households category (proxied by prime-age males of 25-54 years old) was hit hard, with the unemployment rate climbing from 6¼ per cent in early 2009 to over 20% in 2013 (second quarter). Until the onset of the crisis, labour market institutions (such as firing and hiring rules) protected primary earners, often at the expense of workers with a more marginal attachment to the labour market, such as women and young people (Matsaganis, 2012). Therefore a side-effect of the increased flexibility of the labour market has been a weakening of the traditional, family-based safety net (NBG, 2012) that protected many vulnerable groups in the absence of a broad public social support. As support to the unemployed (unemployment insurance benefit and means-tested unemployment assistance) lasts only two years, and there is no means-tested minimum income yet, many families have been left with no income. The government has eased the eligibility criteria for (non-contributory) unemployment

Figure 2.12. **The crisis severely hit employment, sparing no age group**



1. The structural unemployment refers to OECD estimates of NAIRU (non-accelerating inflation rate of unemployment).

Source: Eurostat; OECD, *Labour Force Statistics and Economic Outlook databases.*

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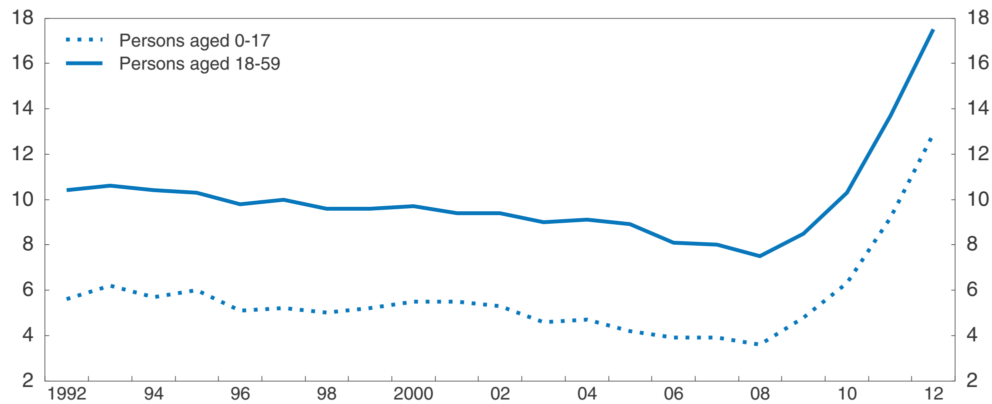
assistance for the long-term unemployed in 2012 (increasing the income threshold for means-testing), but this has benefitted only 20 000 persons in 2012 or about 3% of the long-term unemployed. The sharp rise in long-term unemployment and people living in jobless households is thus of great social concern (Figure 2.13).

Figure 2.13. **Jobless households increased**

Share of persons by age group living in households where no-one works



Source: Eurostat.

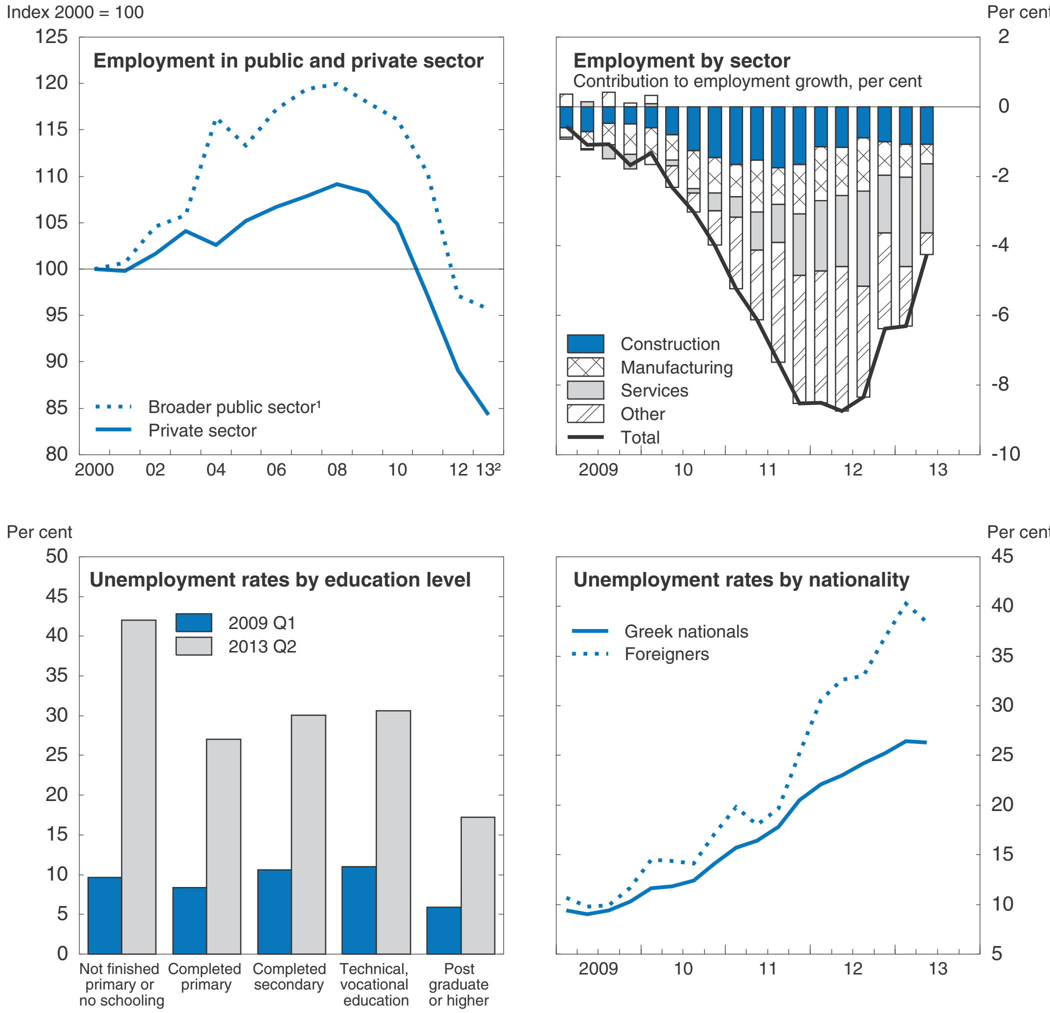
StatLink http://dx.doi.org/10.1787/888932957897

Job losses in the private sector more than offset the gains of the previous decade (Figure 2.14). In the broader public sector (including civil servants and employees in utilities) they have been smaller, reflecting the high job protection that civil servants enjoy, even several years into the crisis. The losses have also fallen disproportionately on the less educated and immigrants, as they tend to be employed in the hard hit cyclical industries, such as services and construction (NBG, 2012) (Figure 2.14). The self-employed have also been affected as many of their businesses have closed.

The decline in real earnings since 2009 has affected both civil servants and private sector employees, with each group losing almost all of their post-euro pre-crisis gains (Table 2.5). Household real disposable income fell by around 30% between 2009 and 2012. Earnings from self-employment have also declined, given extensive business closures, but reliable data are more difficult to find (Matsaganis, 2012). Apart from the recession and fiscal consolidation (affecting mainly public sector employees), the decline in earnings among salaried workers has been influenced by the fast rise in individual wage contracts. According to the Labour Inspectorate (SEPE), the individual contracts (261 353) signed between February and December 2012 provided for wage cuts averaging 22% (Gatos, 2013). Earnings developments in the post-crisis period have also been influenced by the reduction in minimum wages in early 2012, which lost around 25% in real terms since 2009, and was 10% lower in 2012 than it had been in 2000 (Table 2.5).

The social impact of earnings and employment losses is likely to be even larger when taking into account the extensive informal sector, accounting for around 27% of GDP on average in 1999-2007 (Schneider, 2012). Data from the Labour Inspectorate (SEPE), point to a marked upward trend in undeclared work since the onset of the crisis, with around 36% of inspected employees being uninsured in the first half of 2012, compared to 27% in 2010. The SEPE data is supported by the reduced effectiveness in the collection of employers' social contributions since the onset of the crisis (Chapter 1). Informal employment

Figure 2.14. **Social disparities were reinforced**



1. Including public utilities.
2. Q1 2013 data.

Source: ELSTAT, *Labour Force Survey* and direct submission by national authorities to the OECD; Eurostat.

StatLink http://dx.doi.org/10.1787/888932958695

Table 2.5. **Real changes in gross earnings**[1]

	2000-2009	2009-2012	2000-2012
Total economy	23.2	-20.2	-1.7
Central government	22.7	-19.6	-1.3
Public utilities	56.7	-28.3	12.4
Banking	17.1	-17.2	-3.1
Private sector (non-banking)	24.4	-21.2	-2.0
Minimum wages	19.8	-24.9	-10.0

1. Cumulative change in real earnings, deflated by CPI.

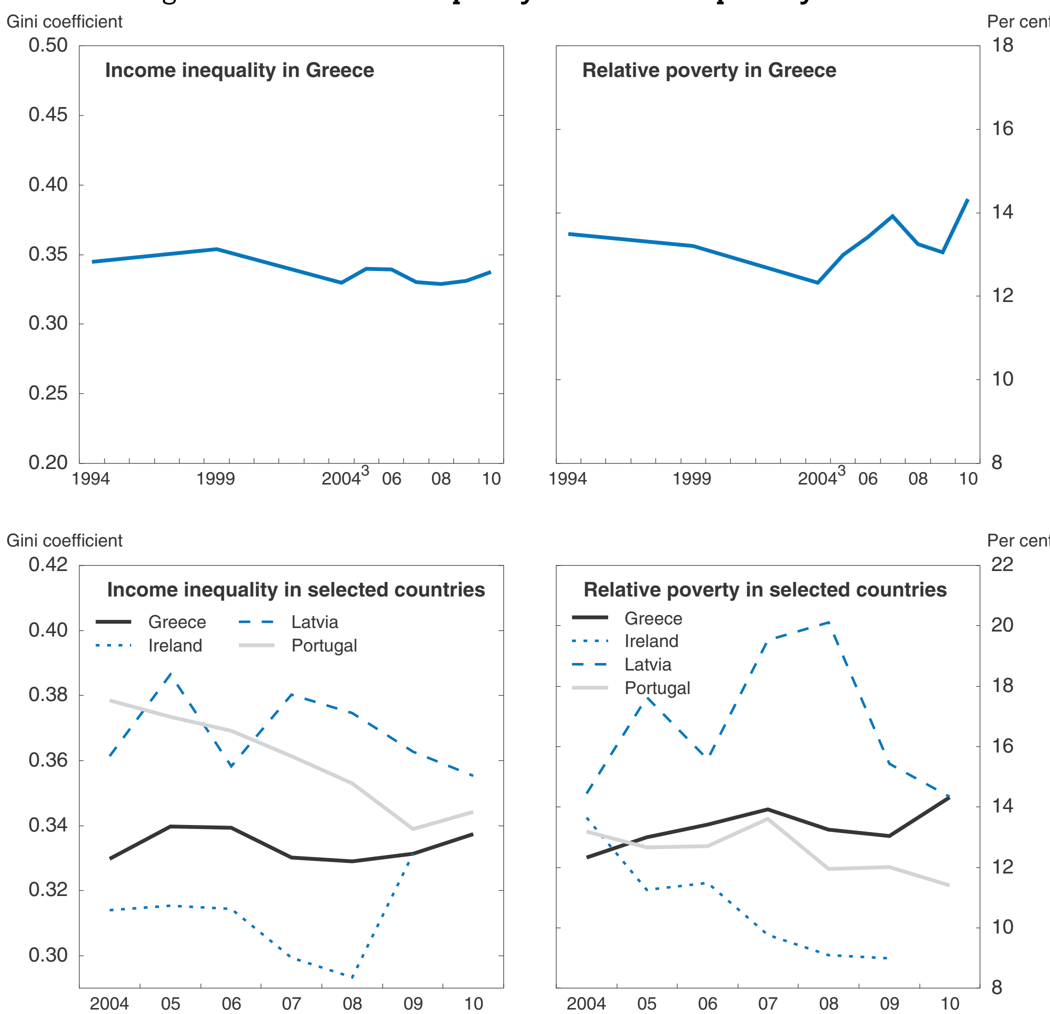
Source: Bank of Greece, *Annual Report*, various years.

contracts have important social consequences as they erode eligibility for contributory social benefits, including health care. In addition, recent empirical research suggests that informality disproportionately affects groups such as immigrants, part-timers and the young, with broader consequences for inequality and poverty (Kanellopoulos, 2012).

Inequality and poverty appear to have risen as the recession deepened

The latest data on income distribution for 2010, the first real crisis year, point to a rise in relative poverty, while inequality remained broadly unchanged (Figure 2.15). Compared to other countries under Troika adjustment programmes, inequality in Greece measured by the Gini coefficient was lower than in Portugal and Latvia, but relative poverty was higher than in Portugal. The lack of more recent data makes it difficult to assess the distributional impact of the crisis with later data.

Figure 2.15. **Income inequality[1] and relative poverty[2] trends**



1. Gini index of household disposable income (market income after taxes and transfers), total population.
2. Relative poverty rates after taxes and transfers (threshold of 50% of the median income).
3. Annual data from 2004 onwards.

Source: OECD, *Income Distribution database*, via *www.oecd.org/social/inequality.htm*.

StatLink http://dx.doi.org/10.1787/888932958714

Tax-benefit micro-simulation models have been used to bridge this data gap and get insights on social impacts of economic changes (Koutsogeorgopoulou et al., 2013). These models use estimates of tax and spending policy changes and economic conditions, and aggregate income developments to infer changes in income distribution and poverty. Such an approach, however, is not without limitations (Box 2.3). For example, to the extent that the synthetic distributions in the micro-simulation model simplify income dynamics, results may underestimate actual changes. This may explain discrepancies observed between the simulated and actual (based on income surveys) data for inequality and poverty. Still, timeliness is an important advantage of micro-simulation models, especially in periods of rapidly worsening economic conditions.

Box 2.3. **Advantages and drawbacks of micro-simulation models**

Estimating the impact of the crisis on income distribution requires up-to-date information. Due to the complexity of income surveys, income data become available with considerable delay. For instance, survey data on incomes earned in 2010 were released only in 2013. In this context, micro-simulation models are an appropriate, and widely used, alternative to bridge the gap in official data, allowing for an early evaluation of the distributional impact of the crisis in 2010-12*.

In addition to providing timely information, micro-simulation allows to distinguish changes in the income distribution, and to identify the impact of key policies (such as changes in personal income tax or cuts in pensions) or other developments (such as the rise in unemployment) on incomes, taking into account the complex ways in which taxes interact with benefits and each other.

There are, however, some methodological limitations in micro-simulation techniques that need to be taken into account when reading the results:

- *First*, under standard practice, the micro-simulation model provides solely estimates of first-order distributional effects, ignoring second-order behavioural responses (such as those related to consumption or labour supply). If such behavioural responses are significant, this will bias estimates of distributional effects. Interactions between austerity and recession are also being left out.
- *Secondly*, in view of the lack of updated income data, a "synthetic" income distribution has to be created by the micro-simulation model which usually involves the following two steps: *i)* simulating tax and benefit policies; and, *ii)* simulating changes in underlying incomes from the data year to the policy year(s). To these can be added an additional step, namely, accounting for labour market changes over the period under consideration. To the extent that the synthetic distribution simplifies income dynamics, results may underestimate actual changes. A detailed analysis of the methodology used in the chapter, which is based on the European tax-benefit model Euromod, can be found in Koutsogeorgopoulou et al. (2013).

* The discussion is based on Leventi and Matsaganis (2013a).

The micro-simulation results suggest that inequality, as measured by most indicators, rose in 2011 and 2012 as the recession deepened and unemployment rose (Table 2.6). The various indicators (Box 2.1) suggest that changes were more significant at the two ends (especially the lower end) of the income distribution, than around the middle. Analysis of the changes in relative income share by decile provides further support to this finding (Koutsogeorgopoulou et al., 2013). Relative poverty (50% of median equivalised income) also seems to have increased in 2012, after remaining broadly unchanged in the previous two years. The trend is more pronounced when poverty is measured against a benchmark "anchored" to half the median real incomes observed in 2005. This is not surprising, however, given the sharp adjustment of the economy since 2009.

Table 2.6. **Estimated inequality and poverty indices over the period 2009-12**[1]

	2009	2010	2011	2012
Income inequality				
Gini index	0.351	0.349	0.354	0.368
S80/S20 income decile ratio	6.1	6.2	6.5	7.6
S90/S10 income decile ratio	10.3	10.4	12.3	17.4
Relative poverty[2]	13.6	13.8	13.7	15.2
"Anchored" poverty[3]	11.9	15.8	19.7	25.5

1. Based on micro-simulation analysis.
2. The poverty line is 50% of median equivalised disposable income in each year.
3. The poverty line is fixed at 50% of median equivalised household disposable income in 2005 and adjusted for inflation.

Source: Koutsogeorgopoulou, V. et al. (2013), "Fairly Sharing the Social Impact of the Crisis in Greece", *OECD Economics Department Working Papers*, forthcoming.

Not all groups were affected evenly by the rise in relative poverty. According to OECD estimates, the impact was greater for men than women, for children and young adults (30-44 years), students and the unemployed (Table 2.7). In 2012, one in three unemployed workers was below the relative poverty threshold of 50% of median. The elderly, the only social group in Greece benefiting from a minimum income support (the minimum pension), fared relatively well with falling relative poverty (Table 2.7). Moreover, poverty rates were, and remained, low for the public sector and banking sector employees and the liberal professions. Relative poverty also declines sharply with the level of educational attainment. No group, however, including university graduates, was spared from the increase in poverty. Regarding other population sub-groups, the burden of rising poverty appears to have affected disproportionately households paying rent or mortgage, compared to outright owner-occupiers, and the Athens area, where however poverty rates remained lower than elsewhere.

Other indicators also point to worsening social conditions

Housing assets – a traditional form of family protection in Greece – declined sharply since the onset of the crisis as house prices fell by around 40% from their 2007 peak (Figure 2.7). Financial assets also declined, reflecting plunging domestic stock prices, and shares accounted for only 4% of financial household wealth at end-2012, compared to 27% at end-2007. The Bank of Greece estimates that household nominal financial wealth fell by 17% between 2009 and 2012 (third quarter).

With less income and higher unemployment, an increasing number of families found it hard to meet their housing costs. The number of households in arrears on mortgage or rent payments has doubled between 2008 and 2011 (to 11%) (Eurostat, 2013). Among low-income families with children, the proportion of those with arrears reached 30%, compared to less than 20% in the other Troika programme countries (Ireland, Portugal, Latvia), and 12½ per cent in the EU. These developments have increased vulnerability to homelessness. Some unofficial estimates suggest that the homeless population in Greece increased by 20%-25% between 2009 and 2011 to around 17 000 – 20 000 people (Fondeville and Ward, 2011), although the lack of official statistics makes it difficult to achieve a comprehensive assessment of the problem. The trend is confirmed by the rapid increase in food distribution by foundations and churches.

Table 2.7. **Relative poverty rates among population groups**[1, 2]

	2009	2010	2011	2012
All	13.6	13.8	13.7	15.2
Gender				
Men	12.8	13.1	13.4	15.2
Women	14.3	14.4	14.0	15.2
Age				
0-17	14.3	15.3	16.3	19.8
18-29	11.8	12.8	13.1	15.3
30-44	10.4	11.8	13.0	16.7
45-64	12.9	13.0	13.0	14.0
65+	18.1	16.2	13.4	10.9
Area				
Athens	10.2	10.3	11.3	13.1
Rural/semi-rural areas	15.0	15.3	14.8	16.3
Tenure				
Rent or mortgage	11.0	13.0	13.5	16.5
No housing costs	14.5	14.1	13.8	14.7
Educational attainment				
Not completed primary education	17.7	18.2	18.0	19.6
Upper secondary	8.9	10.0	10.6	13.0
Tertiary	3.5	4.1	4.4	5.8
Labour market status				
Unemployed	22.9	26.9	27.2	32.6
Employee (private excl. banking)	5.4	5.3	5.6	6.4
Employee (public incl. banking)	0.1	0.1	0.1	0.1
Liberal profession	4.0	4.0	4.0	4.0
Own account worker	9.0	10.1	9.0	10.0
Farmer	27.0	25.6	23.1	23.5
Student	13.1	14.3	15.2	18.3

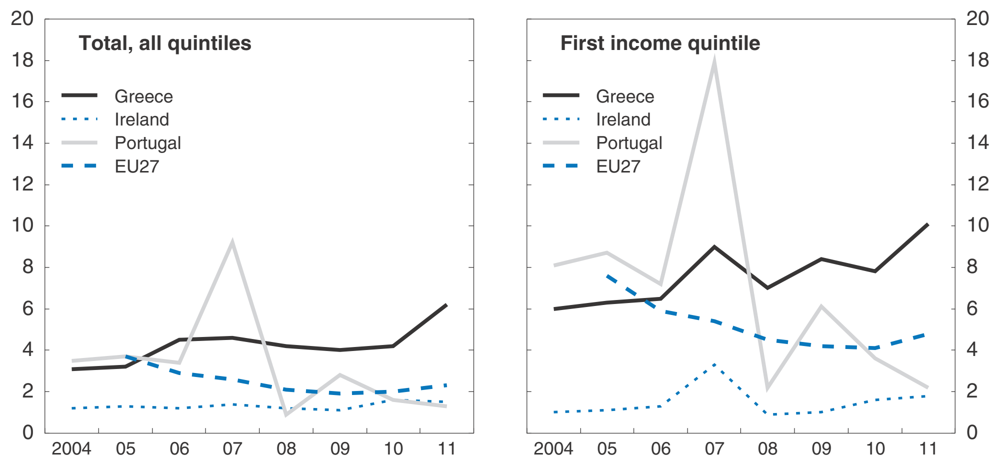
1. Based on micro-simulation analysis.
2. Individuals are ranked according to their household disposable income, equalised by the OECD equivalence scale (i.e. square root of household size). Household disposable income is defined as total income, from all sources, of all household members, net of taxes and social insurance contributions.

Source: Koutsogeorgopoulou, et al. (2013), "Fairly Sharing the Social Impact of the Crisis in Greece", *OECD Economics Department Working Papers*, forthcoming.

A new category of homeless with a broader socio-economic profile appears to be on rise in Greece, as in other EU countries under economic strain. The "new" homeless are characterised by the higher levels of qualifications and work experience, and suffer mainly from an inability to meet housing costs (FEANTSA, 2012). This contrasts with the situation in previous years where the majority of homeless had psychological or addiction problems. The impact of the crisis (including reductions in housing spending) on homelessness in Greece seems to be aggravated by the underdevelopment of social programmes for the homeless and social housing (Houard, 2012). Homelessness has traditionally been addressed in an ad hoc fashion at local level (FEANTSA, 2012). The recession seems to have increased policy attention on the problem (see below), especially in view of the context of a weakening family safety net.

Access to health care may also have been compromised in recent years, notably among the poorest (see below). The rate of self-reported unmet needs for medical care, because it was "too expensive", climbed to over 10% for those in the lowest income quintile (i.e. the poorest 20% of population), comparing unfavourably with most other EU countries (Figure 2.16). The economic crisis has also resulted in a large increase of the uninsured population. Around 10% of the population is currently not eligible for health insurance, including the longer-term unemployed and many self-employed workers in arrears with social contributions, although they can use the emergency services of the public hospitals. Poorer households also continued to bear the brunt of the combination of sharp wage cuts and sluggish downward price adjustment (Chapter 1). Life satisfaction declined by more than 20% between 2007 and 2012, according to OECD subjective well-being indicator, exceeding the fall in other euro area countries for which comparable data are available (OECD, 2013c).

Figure 2.16. **Access to health services became more difficult**[1]



1. Unmet medical needs due to financial reason, based on self-reporting.
Source: Eurostat.

StatLink http://dx.doi.org/10.1787/888932958733

The design of consolidation measures aimed at mitigating the distributional impact of adjustment

The social impact of the crisis was influenced both by the worsening of economic conditions and policy changes. The two effects can be distinguished, to the extent possible (given their inter-relation), using micro-simulations (Box 2.3 and Koutsogeorgopoulou et al., 2013). These simulations quantify the relative impact of consolidation measures on income distribution, *ceteris paribus* (the residuals being attributed to economic conditions). They assume that government policies in a specific year raised taxes and cut public sector pay, pensions and other social benefits, but left nominal pre-tax incomes and jobs in the private sector at their previous year level. Although the estimates capture solely the first-order effects on poverty and inequality, leaving out both the potential behavioural responses and interactions between austerity and the recession, they provide useful insights on the distributional impact of the austerity measures. Recent OECD studies conclude that the composition of the fiscal packages is as important as their size in determining the impact of the adjustment on household income (Box 2.4) (OECD, 2013d).

The sizeable fiscal consolidation comprised reductions in spending, including public sector pay and pension cuts, and tax hikes (Koutsogeorgopoulou et al., 2013). In structural terms, current primary expenditure reductions were about 60% of the total fiscal effort over the period 2009 to 2012 (twice the euro area average but lower than in Ireland, and

Box 2.4. **The composition of fiscal consolidation packages matters for inequality and growth**

Both fiscal targets and equity and growth objectives can be addressed by the design of adjustment packages (OECD, 2013d). Consolidation strategies that are perceived as equitable are also more likely to be implemented successfully. Moreover, a better composition of consolidation packages can help address reform fatigue. Overall, empirical evidence suggests that spending-based consolidation has a much stronger adverse impact on inequality compared to tax-based consolidation, given that in most countries the equalising impact of transfers to households exceeds that of taxes (Rawdanowicz et al., 2013). Of course, when assessing the distributional effects of austerity packages, one would need to consider them from a dynamic perspective in interaction with behavioural responses by agents and structural policies that could influence the outcome.

Looking at individual fiscal instruments, some reforms entail double dividends in terms of reducing inequality and raising GDP per capita (or having a small adverse impact on potential growth). Among the better policies, on the revenue side, are eliminating certain tax expenditures, that tend to reduce progressivity of the personal income tax and are often distortionary for growth, and increasing property taxes (see below) (OECD, 2013d; Rawdanowicz et al., 2013). Other reforms, however, may entail trade-offs between equity and growth objectives. For example, raising labour income taxes would improve equity in the short term, given their progressivity. This, however, could have adverse effects on long-term growth as income tax hikes are among the most distortive tax instruments, in view of their sizeable effects on labour utilisation, productivity, and human capital accumulation (Johansson et al., 2008). Confining the increases only to top incomes would reduce the trade-off between equity and growth, but the budgetary impact can be small due to tax avoidance, unless measures to reduce tax evasion are implemented (Rawdanowicz et al., 2013). Shifting the tax mix towards less-distorting taxes – in particular, from labour to consumption – would improve incentives to work and save, promoting growth. Such reform, however, could raise inequality as consumption taxes tend to be regressive in the short run (given that lower income households bear most of the burden), and are at best neutral in a lifetime perspective. Targeted transfers to low-income households can reduce this likely trade-off (OECD, 2012).

On the spending side, reductions in transfers can significantly increase inequality, though the impact depends, to a large extent, on how the cuts are designed. The distributional consequences of reducing public pension spending, for example, depend on whether these are implemented through adjusting pension eligibility age, or lowering replacement rates. In particular, raising the effective retirement age is ranked high among the consolidation instruments due to its potential positive equity and growth effects, though it would yield only gradual budgetary improvements. On the other hand, an across-the-board reduction in pension replacement rates, could hurt equity though it improves the budget balance, with ambiguous growth effects (OECD, 2013a; Rawdanowicz et al., 2013).

As noted above, behavioural changes can affect the equity implications of fiscal retrenchment. For instance, cuts in unemployment-related, disability benefits or other welfare programmes would affect the poorer deciles in the first place, increasing inequality. But over the longer term they could prompt an increase in labour supply by changing the incentives structure, that would reduce the regressive impact of benefit cuts. Cuts in the wage bill could produce fast consolidation gains, given its large share in government expenditure (between 6% and 19% in OECD area), but to the extent they result in reductions in public sector services, they would affect disproportionately the poorer

Box 2.4. **The composition of fiscal consolidation packages matters for inequality and growth** *(cont.)*

segments of the population, unless accompanied by increases in efficiency of service delivery. Among the worst spending-based consolidation instruments are cuts in education spending – except if they are accompanied with successful efficiency enhancing reforms – and in public investment, given the larger multipliers of public infrastructure than other types of investment (OECD, 2013d).

Moving from a generic to cluster-specific ranking of consolidation instruments, a recent OECD study concludes that measures, such as education, subsidies and property taxes, which have a similar impact on growth, equity and current account objectives, exhibit the smallest rank variation across the examined groups of countries (OECD, 2013e). On the other hand, the widest variation is found in the case of fiscal instruments with the sharpest trade-offs between the three objectives, including personal and corporate income taxes (ranking high in the group of countries with a high weight on equity objectives, but much less so in more egalitarian ones). For countries, like Greece, where the short-run growth objective attracts a strong weight, reductions in subsidies and pension spending, as well as increases in other property taxes (for example, wealth taxes) appear to come out as the best candidate instruments. Higher real estate taxation also receives a relative favourable ranking as a potential consolidation instrument.

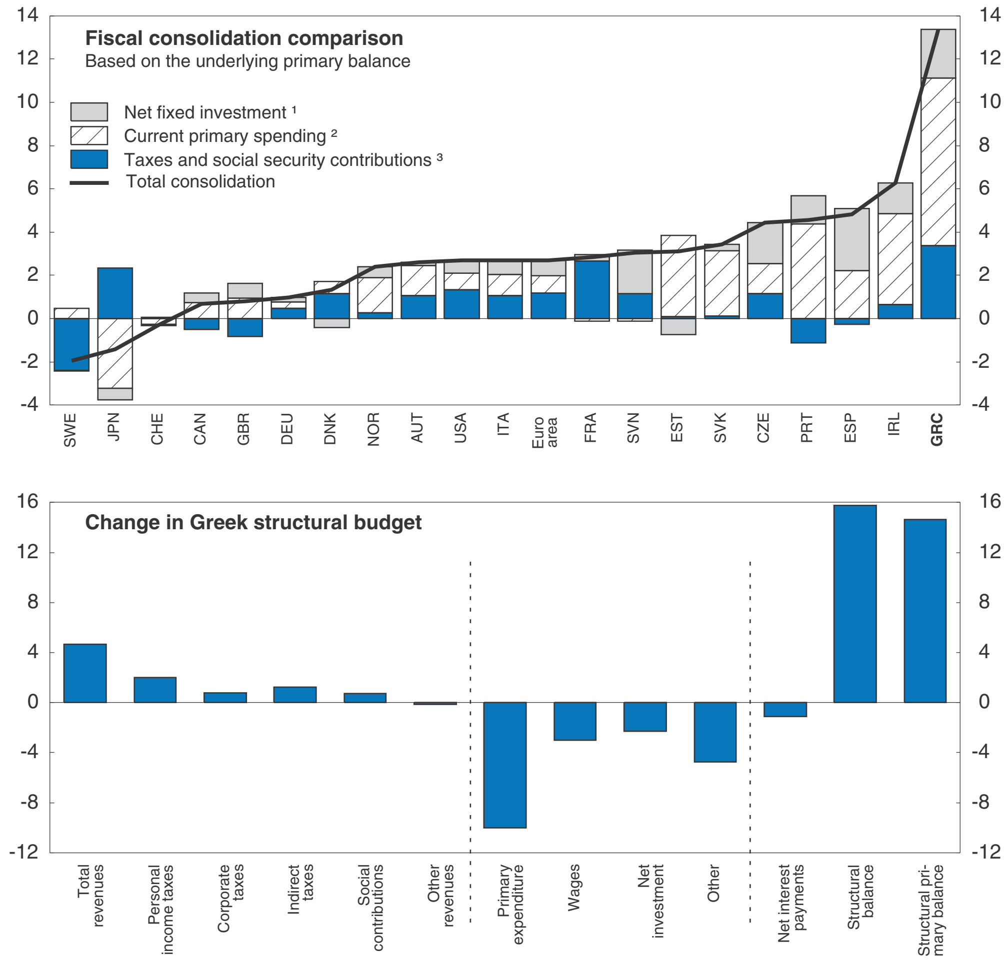
especially Portugal) and tax increases for about a quarter, with the remainder involving cuts in net fixed investment (Figure 2.17).

Unlike the general public perception that the measures adopted led to a significant increase in inequality, austerity policies *per se* appear to have initially reduced inequality, mitigating the impact of the recession (Table 2.8). As consolidation intensified in 2012, the measures appeared to have made income distribution slightly (but statistically significant) more unequal. The proportion of population whose income fell below a poverty line anchored in 2005 in real terms increased with each round of austerity measures, and was given a further boost by the steady rise in unemployment. Of the additional 13.6% of the population below the 2005 poverty line in 2012, compared to 2009, around 40% did so as a result of consolidation measures alone.

The benign initial distributional impact of austerity policies *per se* (as distinct from rising unemployment and falling earnings for private sector workers) is explained partly by the design of the measures adopted. Estimates for 2010-12, based on micro-simulations, show that changes in personal income taxes (in 2010 and 2011) and cuts in public sector pay were progressive (Table 2.9). They either placed a higher burden on high incomes, or those mostly affected were at the top of income distribution. For example, around three quarters of civil servants and two-thirds of public utility workers were located in the top 30% of the income distribution at the onset of the crisis (Matsaganis and Leventi, 2012a). The introduction of the pensioners' solidarity contribution (a special tax on pensions, excluding those up to EUR 1 400 per month) and cuts in pension benefits (abolition of the 13th and 14th month payments) also seemed to have been weakly progressive. On the other hand, policies affecting low-income households, such as the 2012 cut in unemployment benefits (Table 2.9), and the 2010 VAT hikes (based on Leventi and Matsaganis, 2013a), were regressive. The 2011 emergency property tax appears to be, in principle, progressive. However, for a group of people with assets but low income, this tax

Figure 2.17. **The composition of fiscal consolidation**

In per cent of potential GDP, 2009-12



1. Net of the consumption of fixed capital.
2. Adjusted for the economy's cyclical position. Includes underlying capital transfers paid net of exceptional transfers.
3. Adjusted for the economy's cyclical position. Includes other current receipts, non-interest property income received and underlying capital transfers received net of exceptional transfers.

Source: OECD, OECD Economic Outlook 93 database.

StatLink http://dx.doi.org/10.1787/888932958752

may be regressive from an income point of view. They may find it difficult under the current recessionary conditions to sell their property (or part of it) at reasonable prices. Detailed analysis of the impact of each consolidation measure by household income decile group supports the above findings (Koutsogeorgopoulou et al., 2013).

Even though the overall effect of consolidation packages up to 2012 appears not to have raised inequality (abstracting from the impact of the wider recession), income losses for the poorest 10% of the population were considerable and more than in Portugal and Latvia (Avram et al. 2013) (Figure 2.18). These numbers still exclude more recent fiscal measures, and do not assess the distributional impact of structural policies that is difficult to estimate. Moreover, recent empirical cross-country evidence suggests that the cumulative impact of consolidation on income inequality peaks only after five to six years and fades by the tenth year (IMF, 2012a).

Table 2.8. **Disaggregating the redistributive effects of austerity and the wider recession**[1]

	2009	2010		2011		2012	
		Austerity alone[2]	Austerity + recession	Austerity alone[2]	Austerity + recession	Austerity alone[2]	Austerity + recession
Income inequality							
Gini index	0.351	0.347	0.349	0.346	0.354	0.355	0.368
Δ[3]		-0.005	-0.003	-0.002	0.005	0.001	0.014
S80/S20	6.1	6.0	6.2	6.1	6.5	6.6	7.6
Δ[3]		-0.1	0.0	-0.1	0.4	0.0	1.0
S90/S10	10.3	10.1	10.4	10.5	12.3	12.6	17.4
Δ[3]		-0.2	0.1	0.0	1.8	0.3	5.1
Relative poverty[4]	13.6	13.3	13.8	13.4	13.7	13.7	15.2
"Anchored" poverty[5]	11.9	14.0	15.8	17.8	19.7	21.0	25.5

1. Based on micro-simulation analysis.
2. The impact of austerity policies in year t is assessed relative to the state of the economy in t-1. For example, on the basis of the Gini index, austerity policies (alone) made income distribution somewhat less unequal in 2010 compared to 2009 (0.347 versus 0.351). However, they increased slightly inequality in 2012 compared to 2011 (0.355 versus 0.354). The S90/S10 measure shows a larger rise in inequality in 2012.
3. Change relative to the state of the economy in t-1.
4. The poverty line is 50% of median equivalised disposable income in each year.
5. The poverty line is fixed at 50% of median equivalised household disposable income in 2005 and adjusted for inflation.

Source: Koutsogeorgopoulou, V. et al. (2013), "Fairly Sharing the Social Impact of the Crisis in Greece", *OECD Economics Department Working Papers*, forthcoming.

Table 2.9. **Disaggregating the redistributive effect of austerity measures on inequality**

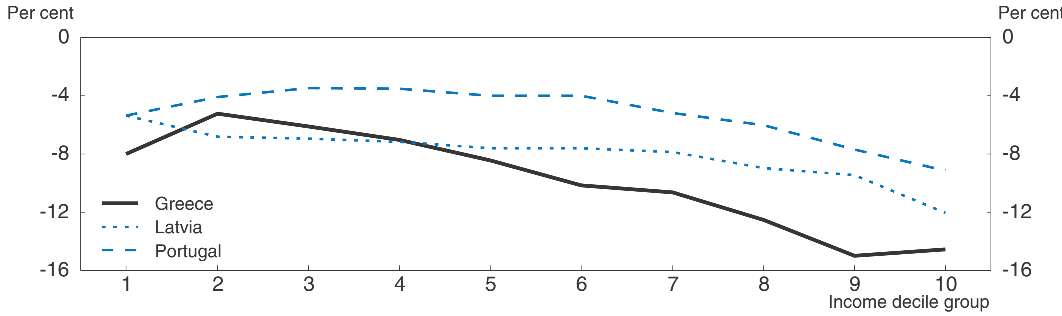
	Reynolds-Smolensky index[1]		
	2010	2011	2012
Direct taxes[2]	+0.0046	+0.0073	no change in policy
Public sector pay	+0.0024	+0.0004	+0.0013
Pension benefits	+0.0003	no change in policy	no change in policy
Pensioners' solidarity contributions[3]	+0.0004	+0.0009	+0.0024
Social insurance contributions[4]	no change in policy	+0.0004	+0.0004
Self-employed extra charge	-0.0003	-0.0004	-0.0007
Emergency property tax	non existent	-0.0031	no change in policy
Unemployment insurance benefit	no change in policy	no change in policy	-0.0015

1. The Reynolds-Smolensky index shows the difference between the counterfactual value of the Gini coefficient in the absence of all 2010-12 austerity measures being assessed relative to its value after the implementation of the austerity policy in question. Positive (negative) values indicate progressive (regressive) impact.
2. For 2010, the estimates of the index refer to changes in personal income tax, introduction of solidarity contribution and emergency tax on large incomes. For 2011, estimates refer to changes in personal tax income.
3. Solidarity contributions levied on main and supplementary pensions.
4. Additional social insurance contributions for unemployment protection.

Source: Koutsogeorgopoulou, V. et al. (2013), "Fairly Sharing the Social Impact of the Crisis in Greece", *OECD Economics Department Working Papers*, forthcoming.

Figure 2.18. **The impact of consolidation on household income**

Change in household disposable income due to fiscal consolidation measures up to 2012[1]



1. The measures included here are limited to those having a direct effect on household disposable income. Deciles are based on equivalised household disposable income in 2012 in the absence of fiscal consolidation measures and are constructed using the modified OECD equivalence scale to adjust incomes for household size.

Source: Avram, S. et al. (2013), "The Distributional Effects of Fiscal Consolidation in Nine Countries", *EUROMOD Working Paper*, No. EM 2/13, January.

StatLink http://dx.doi.org/10.1787/888932957859

Policy challenges ahead

Getting people to jobs, while protecting the most vulnerable social groups, is a key policy priority for inclusive growth (or dealing with recession) and fair sharing of the costs of adjustment. This calls for effective labour market activation policies and strong monitoring of the enforcement of the labour code to ensure access to more and better jobs. The crisis has undoubtedly put fiscal pressures on the welfare state. Public social expenditure declined by almost 2½ per cent of GDP over the period 2011-13, more than in Ireland, while in other southern European countries, expenditure actually increased. To protect the most vulnerable, social support should be better targeted and include some means-tested minimum income. Measures are also needed to ensure access to good health care for all, while containing inefficient spending. A drastic containment of tax evasion would also enhance social fairness, in addition to raising fiscal revenues. Education reforms have also an important role to play, but their impact might take time to materialise.

Effective targeting in social welfare system would mitigate the social impact of the crisis

The crisis triggered several reforms in the social welfare system

Unemployment insurance benefit coverage remains low, with less than 50% of short-term unemployed receiving it in 2012, down from 65% in 2010, even as unemployment surged. Eligibility conditions have been tightened for certain workers since the onset of the crisis. The total number of days a worker can claim the benefit over a period of four years was limited to 450 days from 1 January 2013 and 400 days from 1 January 2014. This will affect seasonal workers in particular. Moreover, the level of unemployment insurance benefit was cut in February 2012 by around 20% to EUR 360 per month (about two-thirds of the current level of the minimum wage) in the wake of cuts to the minimum wage (see above). On the other hand, the unemployment insurance benefit will be extended to the self-employed, subject to means-testing (total personal income cumulated over the two years prior to claiming cannot exceed EUR 20 000, or EUR 30 000 in the case of family income). The new benefit will be paid over 3 to 9 months, depending on the contributory record, at EUR 360 per month. Applicants must have settled beforehand any social security contributions owed.

To better protect the longer-term unemployed, the coverage of the special unemployment assistance (a means-tested non-contributory transfer for the long-term unemployed who have exhausted their one-year unemployment insurance benefit) was expanded. From January 2014, this assistance (EUR 200 per month) will benefit all persons between 20 and 66 years, instead of 45 to 65 years, subject to an expenditure limit of EUR 35 million per annum (corresponding to around 14 000 recipients per year on the full duration of 12 months). The threshold for the qualifying family income was reduced from EUR 12 000 to EUR 10 000 per annum (still double the pre-crisis level).

Some small earmarked funds engaging in non-priority social expenditures, notably the Workers' Housing Organisation (OEK), were abolished as part of wider reforms to downsize the public sector. The settlement of obligations and rights of the organisation was transferred to a special committee (OECD, 2013b). The closing down of OEK in 2012 implied the abolition of the means-tested rent subsidy (the main housing benefit) in its pre-crisis form, with announced plans for the introduction of a broader-based means-tested housing assistance scheme.

To protect vulnerable groups, the government also introduced social residential tariffs for electricity. These give a discount of 42% on annual consumption of up to 5000 kWh, compared with the normal household bill. Such an initiative, however, distorts prices by de-linking energy from its cost. Social objectives would be better pursued *via* the tax-transfer system.

Social benefits have also become better targeted. A new means-tested child benefit was introduced, replacing the family benefits which were abolished at end-2012 (Koutsogeorgopoulou et al., 2013; OECD 2013b). Moreover, as noted earlier, plans were announced for a broader-based, means-tested housing assistance. In addition, EUR 20 million were set aside for a minimum income scheme experiment, to take place in 2014 in two geographical areas with different socio-economic profiles (Law 4093/2012). The scheme will be targeted to the population in extreme poverty, providing income assistance in combination with other initiatives to combat social exclusion (OECD, 2013b).

The government has further strengthened controls on welfare programmes to reduce waste and abuse. Some unofficial estimates set the cost of benefit fraud at around 2% of GDP (Georgakis, 2012). Several periodic censuses have been carried out since 2011 to achieve close monitoring of recipients of social benefits. These detected extensive benefit fraud in pensions (see below for a discussion of recent reforms in old-age system) and disability benefits. For example, around 50 000 ineligible pensions were discovered (EC, 2013a). In addition, new structures and procedures were established for the assessment of disability status that should help to tighten the awarding of benefits. Within this framework, the Disability Certification Centers (KEPA) are to provide a centralised disability certification for disability benefits and disability pensions (Ministry of Labour, 2012; EC, 2013a). Moreover, the creation of a National Register of Beneficiaries of social and welfare benefits allows for systematic monitoring and effective control of the financial assistance programmes (OECD, 2013b).

The reforms are welcome but could go further

Anchoring the social welfare system in means testing, while retaining distinct programmes for various groups, should yield important potential savings, according to the recent OECD cost-benefit analysis, besides improving the poor targeting of the system (OECD, 2013b; Box 2.5). Over time, with the fiscal situation allowing, the duration of the unemployment insurance benefit could be increased by another year, to two years, bringing Greece closer to European norms (Europa, 2012). Tapering the benefits over time, as in a number of countries, would enhance work incentives. The net replacement rate of unemployment insurance benefits could also be brought closer to the international average (Figure 2.19). Moreover, over the longer term, once the minimum income scheme is in place and the duration of unemployment insurance benefit has been increased, the unemployment assistance scheme could be abolished, to avoid increasing the complexity of the social welfare system.

Box 2.5. **Achieving a balance between fiscal and social objectives: some reform options**

The *OECD Reform of Social Welfare Programmes* assumes that the Greek social welfare system should become anchored in means testing and that social welfare programmes remain distinct for different groups, even if they would need to be re-engineered (OECD, 2013b). The alternative of developing a single universal means-tested benefit is not recommended by the report because of high transitional costs and administrative difficulties.

Based on a cost-benefit analysis, the review concludes that the only reform option that could achieve the initial target set in Greece's Economic Adjustment Programme of 1.5% of GDP savings from social welfare programmes (currently being brought down to about 0.7% of GDP), would imply an increase in the poverty rate by 1.6 percentage points. This would actually involve means testing of all social programmes by targeting the poorest 20%. Significant savings, however, are also possible through other options, which fall below the initial target of 1.5% of GDP, but have the advantage of avoiding a significant deterioration in poverty.

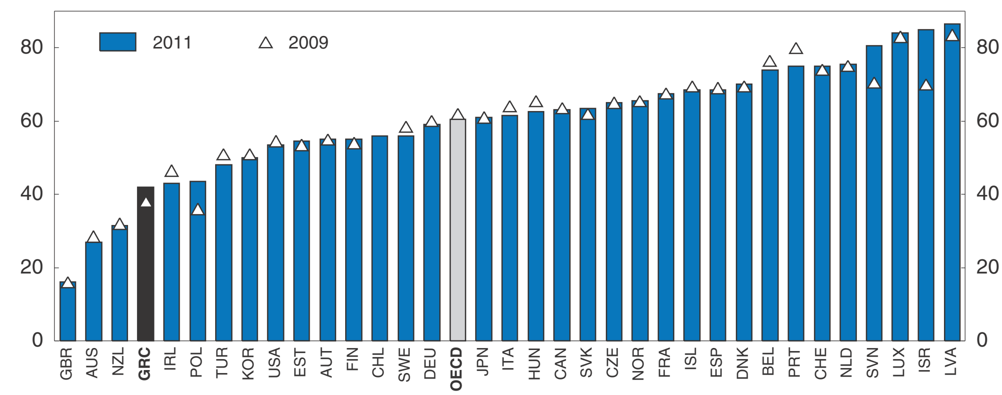
According to the OECD report*, the most interesting options for a balance between fiscal and social objectives are the following:

- *Means test (nearly) all social programmes (option 1.2)*. Targeting the poorest 20% for social programmes, if disability pensions are excluded, would generate GDP savings of up to 1.2%, with a neutral effect on the poverty rate.
- *Means test (nearly) all social programmes (option 1.3)*. If the poorest 25% are targeted, this would generate savings of up to 1.3% of GDP, with a neutral effect on poverty.
- *Extend unemployment assistance (option 2.1)*. Targeting the poorest 20% with extended unemployment assistance, would cost 0.2% of GDP but with the significant effect of reducing the poverty rate by 1.3 percentage points.
- *Replace existing family benefits with a new single means-tested benefit (option 4.3)*. Targeting the poorest 30% for family benefits would save 0.4% of GDP and reduce the poverty rate by 0.1 percentage points.
- *Replace existing disabilty benefits with a new single means-tested benefit (option 5.2)*. Targeting the poorest 30% for disability benefits would save 0.4% of GDP and reduce the poverty rate by 0.2 percentage points.

*OECD (2013), Greece: Reform of Social Welfare Programmes, Table 3.1, OECD Publishing, Paris.

Figure 2.19. **Net unemployment benefit replacement rates**[1]

Per cent of pre-unemployment wage



1. They relate to the initial phase of unemployment after any waiting period. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (i.e. monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months. No social assistance "top-ups" are assumed to be available in either the in-work or out-of-work situation. They refer to the average of net replacement rates faced by single persons without children with pre-unemployment earnings of 67% and 100% of the average wage.

Source: OECD, *Tax-Benefit Models* (*www.oecd.org/els/social/workincentives*).

StatLink http://dx.doi.org/10.1787/888932958771

The government could ensure full implementation of the recently introduced means-tested scheme of family benefits, and proceed swiftly with the introduction of a properly targeted housing benefit. In order to tackle the problem of homelessness and in view of the underdevelopment of social programmes for the homeless and social housing in Greece (see above), a well-targeted housing assistance programme is of high importance. Details of the structure of the announced housing benefit, or the timetable for its introduction, are not yet known.

Important gains, in terms of addressing poverty severity, could also be achieved from the full implementation of the minimum income scheme, as long as this is carefully designed and its impact is closely monitored, especially at the pilot phase. Putting in place such a scheme is particularly important given the sharp rise in the number of jobless households since the onset of the crisis (Figure 2.13). International evidence suggests that minimum income schemes are very efficient in alleviating extreme poverty (Atkinson, 1998; Farinha-Rodrigues, 2004). Recent micro-simulation estimates also indicate notable potential gains. Matsaganis and Leventi (2012b) conclude, in particular, that a minimum income scheme could reduce extreme poverty up to 90%, depending on its coverage and payment level. Minimum income protection is currently available in most EU countries either at a national or local/regional level.

Targeting disability benefits could yield fiscal savings and reduce the complexity of the current system. But this needs to be assessed against the welfare of disabled people who might lose the entitlement to benefit and the potential cost to the budget if these individuals move to institutionalised care as a result of the loss of eligibility. A close and systematic monitoring for the granting of disability benefits is essential for a more targeted system.

The authorities could consider the introduction, maybe on a pilot basis and subject to means testing, of a national programme of subsidised school meals to address rising "food insecurity" among children from poor households. Some unofficial estimates indicate that around 10% of elementary and middle school students faced hunger, or the risk of it, in 2012 (Alderman, 2013). Such programmes exist in a number of OECD countries, for example, France, the United Kingdom and the United States. Indicatively, a programme with an average cost of EUR 3 per meal would cost around 0.4% of GDP annually (Matsaganis, 2013a). This cost would have to be met from savings elsewhere.

The government would also need to fulfil its commitment to proceed further with the controls on welfare programmes in the near term by increasing the number of re-assessments of beneficiaries. Stepped up monitoring in key areas has already yielded some positive savings, according to estimates by the European Commission, and shows considerable potential for additional gains (EC, 2013a). The total savings, for example, over the period 2013-16, from audits of disability benefits and pensions are expected to be EUR 440 million (around 0.23% of GDP). Effective monitoring bodies and timely data are essential for successful implementation. The National Register of Beneficiaries of social and welfare benefits can also provide a comprehensive mechanism for the auditing and rationalisation of social programmes. Its effectiveness depends, however, on the extent that control institutions use the information collected in the registry to make the necessary adjustments in the provision of benefits (OECD, 2013b).

The successful move to a better targeted social welfare system, as well as its efficient monitoring, requires stronger administrative capacity and control mechanisms, assessment of administrative tools, and timely and accurate information on applicants' incomes. This is particularly important in Greece given the significant incidence of undeclared work that makes the administration of benefits based on the sole criteria of earned income more difficult. The 2013 *OECD Reform of Social Welfare Programmes* highlights the need for a more effective system of governance of such programmes. The acceleration of the rationalisation of social security funds, and further consolidation of the remaining ones, is a critical priority in this regard as, despite steps towards consolidation, merged funds have generally retained their own structures. The recent transfer of the overall responsibility of social welfare programmes to one ministry (the Ministry of Labour) is welcome (OECD, 2013b).

Swift harmonisation of information systems across the funds is also essential to ensure the dissemination of information. The recent creation of a National Register of Beneficiaries of social and welfare benefits is a positive step towards data exchange, but it needs to be accompanied by an upgrading of the ICT competencies of funds' employees. Efficient targeting and monitoring of the system hinges on reducing complexity and overlap in the provision of benefits at both central and local levels (OECD, 2013b). Moreover, the 2013 *OECD Reform of Social Welfare Programmes* highlights the need for better monitoring by the central government of earmarked block grants provided to local authorities for the financing of social benefits. Strengthening the management of the provision of social welfare benefits would require increasing the accountability of local governments through a more rigorous auditing system and enhanced transparency (through, for example, public reporting) regarding the use of the grants.

Finally, it is important to ensure that reforms in the welfare system, and especially the move towards a means-tested system, do not reduce work incentives too much. With means-testing public benefits are withdrawn as income rises, in effect taxing extra work effort (Antolin et al., 2012). To retain their benefit, some individuals may opt not to take up employment or to work in the informal sector. This poses difficult trade-offs (OECD, 2006b and 2013b).

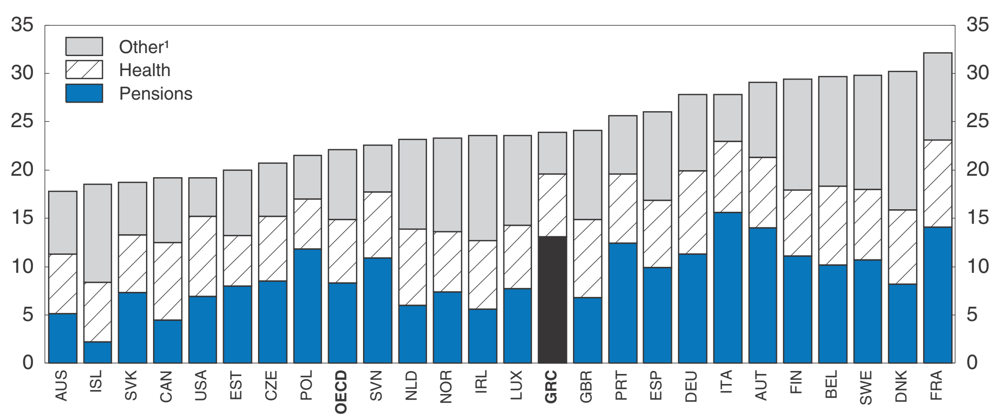
There is scope to enhance equality in the pension system

Important reforms have been achieved

Most of the social welfare spending in Greece is related to pensions (Figure 2.20). The large increase in pension spending since the mid-1990s was a driver of the fiscal crisis (OECD, 2011b). The pre-crisis system was highly complex and unequal with regard to pension rights, reflecting the existence of many pension funds with different rules (Matsaganis, 2012). Pension provisions tended, in general, to favour public over private sector employees, the self-employed over wage earners, middle-aged contributors over younger ones, standard over non-standard workers, and men over (most) women (Matsaganis, 2007). Uneven access to benefits was also a feature of supplementary pensions. Depending on the insurance scheme, benefits could vary between 20% and 45% of end-of-career earnings (Matsaganis, 2013b). In addition to being inequitable, the pension system before the crisis was unsustainable, with pension expenditure projected to rise to a staggering 24% of GDP in 2050 without reform (OECD 2011b).

Figure 2.20. **Public spending on social welfare**

As a percentage of GDP, 2009



1. For a breakdown of this item, see Table 2.4.

Source: OECD, *Social Expenditure database*.

StatLink http://dx.doi.org/10.1787/888932958790

The austerity measures had evident effects on pensions. While the cumulative impact of the cuts depends on the characteristics of each pensioner (such as age, social insurance affiliation and benefit level), some indicative official estimates suggest that pensioners drawing a total pension (main and supplementary) of EUR 900 per month before the crisis suffered an overall reduction of 26% in 2009-12. The corresponding reduction for those on a total pension of EUR 2 100 per month was 34%. Further cuts in pensions are envisaged in 2013-14.

Beyond the cuts in benefits to address immediate fiscal pressures, the crisis set in motion some efficiency-enhancing structural changes in the pension system. A comprehensive reform in 2010, discussed in detail in the 2011 *Economic Survey of Greece* (OECD, 2011b), strengthened the long-term viability of the system by reducing its generosity (including through reduced pensions, increased retirement age, and extended contribution periods to qualify for a pension). Certain elements of the reform, however, such as the increase and equalisation of the retirement ages, enhance equity (Box 2.4).

The reform also paves the way for a more inclusive pension system that can promote distributional fairness. In particular, a new two-tier structure is to be introduced in 2015 that distinguishes between a basic pension (amounting to EUR 360 per month in 2010 prices) and a contribution-related proportional pension (calculated as lifetime earnings multiplied by annual accrual rates multiplied by the number of insurance years). For the uninsured or those with insufficient years of contributions (less than 15 years), who do not qualify for a proportional pension, the basic pension provides an important safety net (NAA, 2012). To be eligible, claimants must pass an income test (as well as a residence test) and be 65 years and over.

The access conditions are less tight for those with a longer contributory record (at least 15 years). First, the basic pension is awarded to these claimants without income criteria. Moreover, in case of early retirement, they are entitled to a reduced pension (Matsaganis and Leventi, 2011). As a further safety net for those with an insurance record of at least 15 years, a new minimum pension was introduced which ensures that the sum of basic plus proportional pension cannot be less than the equivalent of 15 minimum daily wages, as stipulated in the National Collective Agreement for 2015 (on the basis of data for December 2012, the value of that threshold would be EUR 393 per month). While, at first sight, it could be said that the uninsured would have greater need of protection, the more favourable access conditions for basic pensions for retirees with a longer contributory record are right as they boost incentives to work and make payment for social security contributions (OECD, 2011c; Paparigopoulou-Pechlivanidi, 2011).

The 2010 law also aimed at unifying pension provisions. In particular, the new accrual rates for the proportional pension, though less generous than in the previous system, will have the same profile for all workers that depends only on the years of service (NAA, 2012). This contrasts with the different accrual rates across pension funds under the old system. Moreover, the increase in accrual rates with the length of working life could enhance the incentives for older workers to participate longer (IMF, 2012b). The risk remains of course that workers with loose attachment to the labour market (including undeclared work), and hence short insurance records, might see little point in paying contributions, but this issue should be addressed through labour market and/or education policies rather than pension ones.

Further reform

Although they have been reduced, inequalities in treatment across different groups of pensioners were not eliminated. Discretionary exemptions remained, as for example, with the liberal professions (medical doctors, law practitioners and engineers) who preserved their separate schemes, effectively opting out of the reformed system. Moreover, in some cases, such as that of utilities, the acquired rights of employees hired before 1983 were protected (Matsaganis, 2011; Petsemidou, 2011). In addition, although the 2010 reform simplified the structure of the system, leaving only 6 pension funds, there are still 93 sectoral systems under these broad funds with different social security contributions. Around 30% of main pensions were above the EUR 1 000 threshold in mid-2013, according to the recent EC review of the Greek adjustment programme (EC, 2013b).

Removing remaining exemptions applying to specific groups would promote distributional fairness, besides contributing to fiscal consolidation. Subject to budgetary constraints, reforms could also seek to harmonise and rationalise the contribution rates to the various pension and sickness funds, as benefits seem to have been equalised to a large extent. For instance, pension contributions of many professionals, such as engineers, which are set at a fixed amount depending on the number of years of activity, regardless of earnings, could usefully be rationalised.

It is also very important to continue efforts to control pension fraud. The recent activation of two centralised, inter-linked, electronic monitoring systems is a welcome step in this regard. More specifically, the "Helios" scheme, monitoring retirement pay, is linked to the "Ariadne" scheme, that directly records major demographic changes, facilitating in this way the detection and suspension of ineligible pensions (EC, 2013b). Regional differences in the distribution of different categories of pensions in mid-2013, particularly regarding disability pensions, suggest the need for further monitoring of the social security system to avoid abuse in the future.

Ensuring equal access to good health care services, while containing cost

The health care system in Greece (National Health Services Organisation, EOPPY) covers, in principle, the vast majority of the population, on the basis of insurance status. The uninsured have a means-tested access to some basic health care services through the "health insurance book", providing free access to public hospital and medical services (including pharmaceuticals). Those not eligible for a "health insurance book" can only access the emergency services of public hospitals which are not conditional on insurance status.

The surge in long-term unemployment, however, is making it difficult for EOPPY to provide care for a growing proportion of the population, despite an unchanged coverage policy. The number of uninsured has risen substantially since the onset of the crisis because the health care insurance system effectively covers the unemployed (age between 29 and 55) only for a maximum of two years (Economou, et al., 2013). Based on official estimates, around 10% of the population is currently not eligible for health insurance, which includes many self-employed workers who are in arrears with their social contributions and thereby become ineligible.

Access to health care may also have been affected by the rise in the cost of health services to patients following recent reforms. While out-of-pocket medical payments were already high in Greece before the crisis (Figure 2.11), user charges for visits to outpatient department hospitals were increased in 2011 (from EUR 3 to EUR 5 per visit), followed by a rise in co-payments for prescribed medicines in 2012. In addition, a fee was introduced for consultation with EOPPY doctors. More specifically, under current arrangements, there is a maximum number of consultations per month (150 or 200) that EOPPY doctors provide for free. When this limit is exhausted, patients are charged with the full cost of visit. It is, of course, difficult for a patient to know in advance whether he/she has to pay or not for the consultation, which may act as a deterrent for a medical visit. It is also possible that the re-organisation of the health care system and spending cuts have worsened access to health care. While there is no hard evidence, so far, to support the point, on the basis of some anecdotal evidence, waiting times to receive public health services seem to have increased (Liaropoulos, 2012; Economou et al., 2013).

The impact of the crisis on health care access needs to be closely monitored given its effects on equity and longer-term growth and well-being (OECD, 2011a; Hoeller et al., 2012; OECD 2013e). The loss of health insurance for a large number of workers and their families since the onset of the downturn is of major concern, especially as an increasing number of patients who would previously have used the private sector are now resorting to public hospitals. As noted earlier, under existing arrangements, the long-term unemployed and generally the uninsured have a means-tested access to some basic health care services through the "health insurance book". Nevertheless, illegal immigrants have no right for free access to health services, unless there is an emergency or a life-threatening risk. This is also the case for other population groups. The self-employed, for instance, who have closed down their businesses but do not have tax clearance certificate, and households whose income exceeds the means test (threshold EUR 5 000 per year) are also excluded from the coverage of such services (Paleologou, 2013).

Attention must also be paid to the impact of the crisis on health outcomes. While there has not been evidence of any pronounced deterioration in the main health indicators so far, some adverse effects have been already detected in certain areas, including mental health and infectious diseases, with the vulnerable groups facing higher risks (Box 2.6). In the case of infectious diseases, this seems related to the reduction in provisions such as free needles to injection for drug users and delays in mosquito-control activities by public local authorities for financial reasons. It is still too early to assess the full scale of the consequences of the crisis on health outcomes. However, monitoring any possible effects is important.

Box 2.6. **The impact of the crisis on health: some preliminary evidence**

A number of studies provide evidence of crisis-related adverse effects on mental disorders, self-reported general health, and infectious diseases (Karanikolos et al., 2013). Mental health may be more responsive to economic shocks in the short term, as it may be influenced by both financial (such as a sharp fall in earnings) and non-financial (including increased stress and decreased social recognition) developments (Vandoros et al., 2013). The one-month prevalence rate of major depression was found to be 8.2% in 2011, more than twice the corresponding rate in 2008, with the increase being closely linked to economic hardship, associated thereby with the impact of the crisis. Some groups, such as the young and married persons and people on medication seem to face a higher risk. In addition, on the basis of information for the first two years of the crisis, the suicide rate appears to have increased, although it remained well below the OECD average (Liaropoulos, 2012). A recent study attributes the deterioration in self-reported health, compared to the pre-crisis era, to the worsening of mental health associated with the economic downturn, rather than to its direct impact health care access (Vandoros et al., 2013).

There has also been an alarming outbreak of infectious diseases, particularly HIV, reflecting to a large extent low provision of preventive services, according to a recent study (Karanikolos et al., 2013), and even some incidence of malaria (Vakali et al., 2012). While the number of new HIV infections related to drug injection continued falling across Europe, Greece is among the few countries where this downward trend was interrupted in 2010 (EMCDDA, 2013). Overall, Karanikolos et al. (2013) conclude that outbreaks of infectious diseases and suicides are becoming more common in countries under strong fiscal consolidation. Budget cuts in these countries have also limited access to health care, according to the study.

Recent policy initiatives to address the loss of health insurance triggered by the crisis include a reduction in the days of insurance payments required for full medical coverage, and a temporary extension of health coverage for the unemployed from two to three years until February 2014. A new Health Voucher Programme, underwritten by the European Social Fund, was launched in 2013 aiming to provide access to primary health care services for 230 000 long-term uninsured. Some other initiatives in the pipeline, also financed by the European Social Fund, include the provision of nursing and rehabilitation services at home or at specialised structures to uninsured people with long-term health problems. As a further welcome step, a telemedicine programme was endorsed by the government at end-2012 for islands and remote mainland areas to deal with distance. These initiatives are important to cushion the recession and, assuming they remain fiscally possible, should be continued until the economy improves substantially.

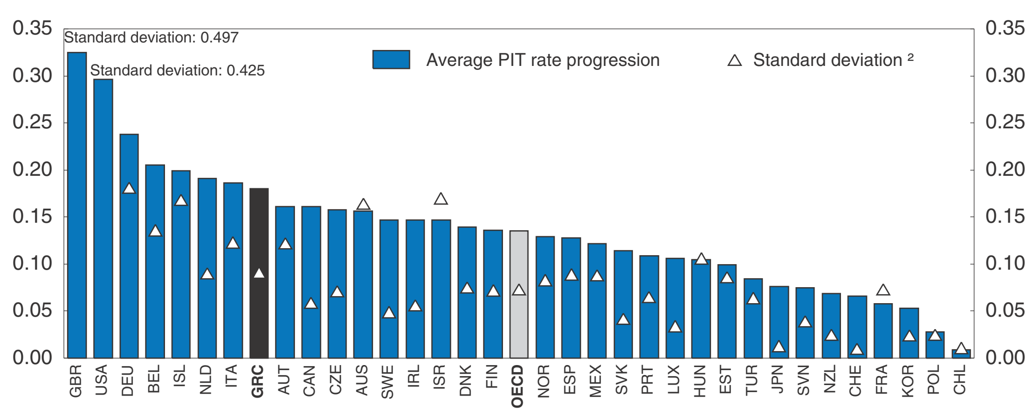
The authorities must also ensure that cuts in health care spending focus on inefficient spending, avoiding as much as possible to reduce needed service levels. Recent evidence of deteriorating health indicators in mental health and infectious diseases (Box 2.6) highlight the need for maintaining critical preventive public health services, which will tend to benefit more the low-income groups who are likely to be more prone to these diseases (Karanikolos et al., 2013).

A fairer distribution of the tax burden to make adjustment more socially acceptable

The rate structure of Greece's personal income tax system is progressive by design (Figure 2.21). Widespread tax evasion, however, distorts its distributional effects and reduces its effectiveness in terms of tax collection (Chapter 1). Based on micro-simulation analysis, Leventi and Matsaganis (2013b) conclude that the extended income under-reporting (at an average rate of 12.2% in 2009), incurred mainly among self-employment, increases inequality and makes the tax system considerably more regressive (by around 32% on the basis of the difference in the value of redistribution indices under tax evasion and full compliance). This reflects, to a large extent, the distribution of tax evasion in

Figure 2.21. **The tax system is progressive by design**

Personal income tax (PIT) progression for one-earner married couple with 2 children,[1] 2011



1. With income ranging from 50% to 200% of the average wage.
2. The standard deviation indicates the level of variation of the average PIT rate progression across the five income intervals for each country. For more details, see *Source*.

Source: OECD (2013), *Taxing Wages 2013*, Figure S.4.

StatLink http://dx.doi.org/10.1787/888932958809

Greece, and in particular, the relatively higher level of income under-reporting among the richest deciles. Since effective tax rates increase with income, the relative extensive under-reporting of higher income earners reduces the progressivity of the tax system (the re-distributional effect of under-reporting of low-income groups is minimal given the low effective tax rate they face) (Benedek and Lelkes, 2011). These findings appear to be in line with those for Italy and Hungary (Matsaganis et al., 2010). The distributional impact of tax evasion would be even stronger if evasion of other taxes than the personal income tax, and especially, social security contributions, were taken into account. In addition, tax evasion imposes a sizeable fiscal cost, with an estimated shortfall in tax revenue of around 30% (Leventi and Matsaganis, 2013b).

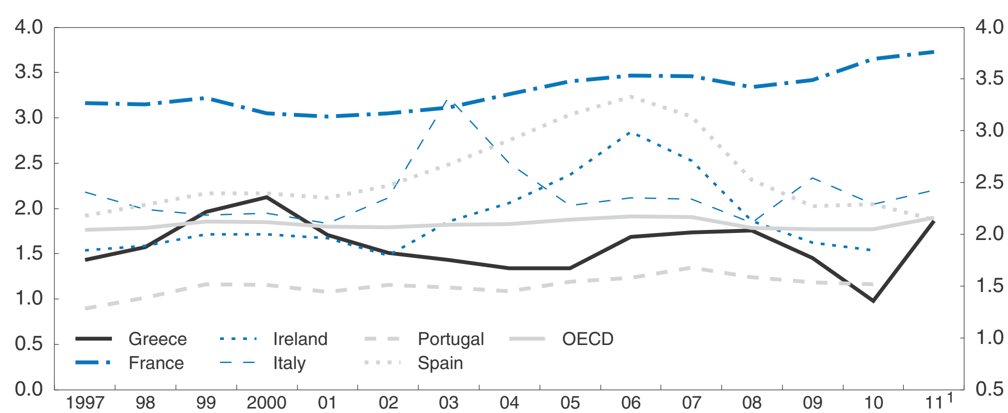
Insufficient progress in combatting tax evasion has shifted the burden of fiscal adjustment towards wage and salaried workers and pensioners, who have less scope for evasion. Around three-quarters of the declared incomes in 2009 were accounted for by income from wages/salaries and pensions, according to a recent study by the Bank of Greece (Vasardani, 2011). These groups incurred more than half of the total tax burden (personal and corporate) in 2009, according to the study, with only 17% being borne by the rest of individual tax payers and 30% by firms.

A number of initiatives have been undertaken since the onset of the crisis to tackle tax evasion, aiming mainly at improving tax administration and making the tax system less complex (Chapter 1). Moreover, reforms in 2013 brought more of the self-employed into the tax net through a new two-rate tax regime and the elimination of personal tax allowances for this group. More than half of the self-employed declare incomes below the threshold of the standard allowance (EUR 5 000 per year), according to European Commission estimates (EC, 2013a), and as many of these declarations are probably inaccurate, increasing their tax payments is thus a priority.

A particular tax issue in Greece, in view of the high rates of home-ownership and the importance of housing wealth in lower and middle quartiles (see above), is whether increases in property tax have any adverse effects on income distribution. The share of such taxes in GDP has almost doubled between 2010 and 2011, bringing Greece into line with the OECD average, although below countries such as France and Italy (Figure 2.22).

Figure 2.22. **Developments of property taxes**

As a percentage of GDP



1. Provisional data.

Source: OECD, *Revenue Statistics database*.

StatLink http://dx.doi.org/10.1787/888932958828

Property taxes are among the least distortionary levies as they affect less the incentives to work and invest than some other taxes. Moreover, certain property taxes, such as hikes in inheritance taxes, tend to be inequality-reducing. Real estate taxes can also be progressive if appropriately designed (Johansson et al., 2008; OECD, 2013e; Rawdanowicz et al., 2013).

An emergency levy on real estate was introduced by the government in 2011, as part of the fiscal adjustment package, collected through electricity bills. Long-term unemployed or recipients of unemployment benefit for more than 6 months, are exempt, subject to an income test. As mentioned earlier, this tax appears to be, in principle, progressive, though for a group of people with assets but low income, it may be regressive in terms of income.

Recent reforms reduced the rate of emergency tax by 15% and broadened the tax base, including through taxing buildings outside urban planning zones, as well as those leased to the state by non-exempted private owners (EC, 2013a, 2013b). These are positive moves towards a more equitable distribution of the tax burden. The government could also go ahead with the consolidation of a number of property taxes, which could reduce complexity and contain tax evasion, and the further broadening of the tax base – both planned to be introduced in 2014 (Chapter 1). Regularly updating real estate values used to calculate property taxes would help to increase fairness (for example, by the exemption of low value properties), at a manageable administrative cost (Johansson et al., 2008; Rawdanowicz et al., 2013).

Enhancing activation policies

A number of active employment policies and vocational programmes have been launched by the Public Employment Service (OAED) since the downturn to contain high unemployment, especially among youth (with an unemployment rate around 60%). Labour market integration of young people is essential to avert long-term adverse effects as a consequence of prolonged unemployment and low-income spells early on in their careers (OECD, 2013f). So far, fully implemented programme spending accounts for 0.3% of GDP, and an additional 1.7% of GDP has been allocated for this purpose. The high social and fiscal costs of unemployment require well-funded activation policies, although they will be costly in the short run. A comprehensive and systematic evaluation of the programmes is essential, however, to identify what works and what doesn't. Uncertainties remain about the effectiveness of activation policies implemented in Greece since the onset of the crisis (and also prior to the downturn) due to lack of an evaluation strategy. Based on OAED estimates, the active labour market policies introduced during the period 2010-12 have halted the increase in unemployment by 5 to 7 percentage points (OAED, 2012). This conclusion, however, is not based on a thorough assessment of the outcomes of the adopted programmes, in terms of employment creation or retention (net of displacement effects). This makes it difficult to establish attribution to active labour market policies rather than other developments.

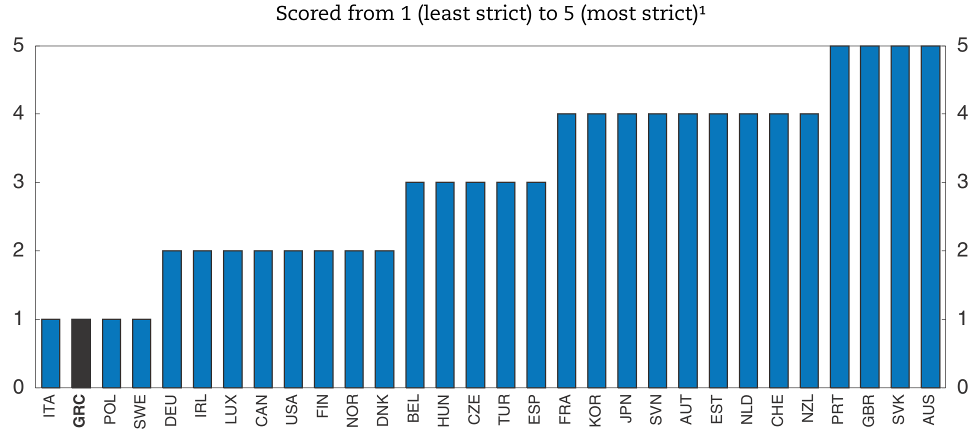
Swift progress towards a rigorous evaluation of the activation programmes implemented is essential for an effective response to the crisis. This would allow schemes that work to be expanded, and others wound down. Assessing the deadweight costs (arising when the employers tend to hire individuals who would be hired even in the absence of subsidies) of employment subsidies is important, given the large share of such schemes in overall activation spending (around 50% in 2010). An action plan was adopted by the government in 2013 to overview and assess the implemented active labour market programmes. It should be put in place as a matter of priority.

The Public Employment Service (OAED) is being modernised, and by 2020 is to have a new operational model that allows for a closer co-operation with the private sector and greater focus on individual needs. To the extent possible, implementation should be accelerated. The foreseen systematic evaluation of OAED programmes under the new model is welcome, and should take the form of experimental evaluations (that is, whether participants in a programme achieve better outcomes than if they were not participated), as these are best practice (OECD, 2010). Monitoring post-programme outcomes (such as job characteristics and earnings) of the activation programmes, through a well-developed set of indicators) is also useful (OECD, 2010).

The effectiveness of activation policies would be improved by making unemployment benefits subject to stricter obligations for participation in training and employment programmes, enforced by more intensive monitoring and stronger sanctions for non-compliance. Extending this approach to active job search, where monitoring is now low (Figure 2.23), as the economy improves, would help direct the unemployed to activation programmes best suited to their need (OECD, 2010; OECD, 2011b). Greece has had a legal framework for "mutual obligations" since 1985. It stipulates an interruption of unemployment benefits for those who do not accept a job offered to them, or if they refuse to undertake OAED training or re-training. It is very difficult, however, to assess the extent to which such law has been adopted in practice. Indeed, there is no official record kept of benefits actually having been withdrawn.

Figure 2.23. **Job-search monitoring**

Scored from 1 (least strict) to 5 (most strict)[1]



1. The score reflects criteria for job search monitoring in place in early 2011. For more details, see *Source*.

Source: Venn, D. (2012), "Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries", *OECD Social, Employment and Migration Working Papers*, No. 131, OECD Publishing (*http://dx.doi.org/10.1787/5k9h43kgkvr4-en*).

StatLink http://dx.doi.org/10.1787/888932957916

Strengthening the role of labour inspection to safeguard social outcomes

Labour market reforms brought about important institutional changes, including an overhauling of the collective bargaining system. Among other things, this has resulted in decentralised wage setting, which will be key to restoring competitiveness and boosting productivity. This can be seen, for example, in the rapid spread of individual wage contracts. Official data suggest that between October 2011 and April 2013, individual contracts covered about 300 000 employees, compared to just 170 000 employees under firm-level collective agreements (fewer than 60 000 employees if large firms are excluded).

However, 98% of firms have fewer than 10 employees and most of them have no bargaining experience (Voskeristian and Kornelakis, 2011). This opens the possibility that labour standards, such as health and safety rules, will be effectively eroded. Strengthening the role of labour inspection would be important.

Reform initiatives in 2011 extended the functions of the Labour Inspectorate (SEPE) to new areas and enhanced its powers to impose fines and exercise investigatory powers (Act No. 3996/11). Employers are required to pay the fines immediately (ILO, 2011). The 2011 reform also introduced a "labour card", entered into force in early 2012, which electronically detects the time of arrival and departure from the workplace, and targets sectors with a high share of unregulated contracts, such as hotels. A new law in 2013 reinforces the capacity of the Labour Inspectorate, providing for a closer co-operation with the financial police. It also imposes fines (between EUR 3 000 and 5 000 for each worker) on those firms employing unemployment benefit recipients, in a further effort to combat undeclared work.

These initiatives are welcome, but much scope remains for ensuring effective enforcement of the labour law. High probability of detection of undeclared work is essential, including through stepping up inspections and effective sanctioning (IMF, 2013a). A recent report by ILO on the Greek labour inspection system stresses the need for a formal enforcement policy to ensure consistent application of the law at all levels, accompanied by the development of an integrated information system on workplaces and inspections (ILO, 2012). Staff reinforcement, through a national training strategy for labour inspectors is also recommended. An Action Plan has been elaborated by the government, on the basis of ILO findings, to strengthen the overall function and effectiveness of the labour inspection system. Its timely implementation is essential. The adoption of a single Labour Code, as envisaged by the government, compiling all existing legislation relevant for labour and industrial relations, would reduce complexity and increase enforceability of labour law (IMF, 2013b).

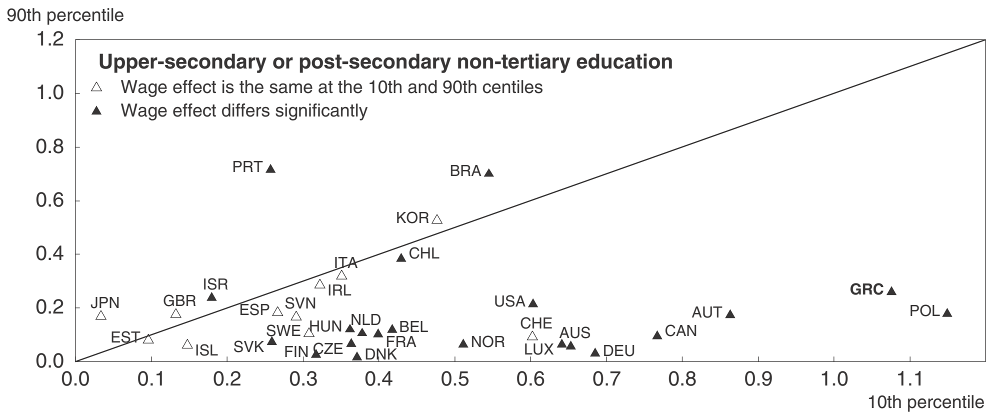
Education reforms can improve distributional outcomes over the longer term

The crisis has also opened a window of opportunity for efficiency-enhancing reforms in education. On-going reforms aim at upgrading and rationalising the education system, while also ensuring better school outcomes, including through measures that combat school failure and promote more equitable educational opportunities (Koutsogeorgopoulou et al., 2013). Existing research highlights the positive impact of educational attainment on employment rates and long-run living standards (OECD, 2013a). Recent studies also conclude that educational reforms, especially those regarding compulsory education, can reduce inequality. Fournier and Koske (2012) show that a rise in the share of workers with upper-secondary education is linked to a decline in labour earnings inequality, with the impact being particularly strong for Greece (Figure 2.24).

Research further highlights the close link between a more equitable distribution of educational opportunities and equality in earnings distribution (de Gregorio and Lee, 2002). This reflects the potential of policy initiatives that ensure an equal access to education to deliver large positive returns over an individual's entire lifetime, particularly for students from more disadvantaged backgrounds (OECD, 2006a; OECD, 2013a). However, unlike reforms in other areas, such as the labour market, the positive effects of education reforms take time to materialise, with their impact being felt mainly over the longer term.

Figure 2.24. **Impact of education on earnings distribution**[1]

Effect on log earnings of a 1 percentage point increase in the share of workers with a specific education level



1. Based on unconditional quantile regression estimates. The horizontal (resp. vertical) axis shows the impact of a 1 percentage point increase in the proportion of workers with secondary education on the log earnings of the 10th (90th) quantile. A data point below (above) the 45 degree line indicates that the change in the educational composition of the workforce is associated with a fall (rise) in earnings inequality. The equality test is performed at the 5% level. For more details, see *Source*.

Source: Fournier, J.M. and I. Koske (2012), "Less Income Inequality and More Growth – Are they Compatible? Part 7. The Drivers of Labour Earnings Inequality – An Analysis Based on Conditional and Unconditional Quantile Regressions", *OECD Economics Department Working Papers*, No. 930, Figure 7.

StatLink http://dx.doi.org/10.1787/888932958847

Box 2.7. **Recommendations on promoting a fair sharing of the costs and benefits of adjustment**

Ensuring a more effective welfare system

- Target selected social benefits more efficiently and introduce a properly targeted minimum income scheme. Draw lessons from the planned pilot phase for the design of the minimum income scheme.
- Introduce a well-targeted housing benefit.
- 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.
- 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.
- 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.
- Introduce a national programme of subsidised, means-tested school meals.
- 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.
- 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.

Box 2.7. **Recommendations on promoting a fair sharing of the costs and benefits of adjustment** *(cont.)*

Enhancing equality in the pension system

- Remove remaining inequalities in the treatment of occupational groups under the reformed pension system by abolishing special rights.
- Harmonise contribution rates to pension and sickness funds.

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.
- Monitor closely the health impact of the crisis on the population, and, if required, take further actions to protect public health.
- Focus health care cuts on reducing inefficiencies, while avoiding cuts on efficient and critical programmes.

Making the distribution of tax burden fairer

- Impose fair and transparent penalties to tax evaders to increase compliance.
- Regularly update real estate values used to calculate property taxes.

Getting people to jobs

- Tackle high unemployment, especially among youth, by strengthening activation programmes and evaluating their effect in promoting employment to focus on the successful ones.
- 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.
- 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.

Strengthening the role of the Labour Inspectorate

- 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.
- Proceed with the simplification of the labour code.

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Glossary

CPI	Consumer price index
DEFSA	Gas transmission operator
DEPA	Public Gas Corporation
ECB	European Central Bank
ELA	Emergency Liquidity Assistance
EMU	European Monetary Union
EOPPY	National Health Services Organisation
EPL	Employment protection legislation
FCI	Financial conditions index
GEMI	online national registry for administration procedures
GGBs	Greek government bonds
HCC	Hellenic Competition Commission
HFSF	Hellen8ic Financial Stability Fund
HRADF	Hellenic Republic Asset Development Fund
ICT	Information and Communication Technology
KEPA	Disability Certification Centres
NPL	Non-performing loans
OAED	Public Employment Service
OEK	Workers' Housing Organisation
PPC	Public Power Corporation
PSI	Private Sector Involvement
REER	Real effective exchange rate
RES	Renewable Energy Scheme
SEPE	Labour Inspectorate
SMEs	Small and medium sized enterprises
VAT	Value added tax

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