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

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BASIC STATISTICS OF GREECE, 2014

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

LAND, PEOPLE AND ELECTORAL CYCLE

Population (million)	11.4		Population density per km^2	86.2	(34.9)
Under 15 (%)	14.2	(18.2)	Life expectancy (years, 2013)	81.4	(80.5)
Over 65 (%)	19.9	(16.0)	Men	78.7	(77.8)
Foreign-born (%, 2012)	6.7		Women	84.0	(83.1)
Latest 5-year average growth (%)	0.3	(0.6)	Latest general election	September 2015	

ECONOMY

Gross domestic product (GDP)			Value added shares (%)[b]		
In current prices (billion USD)	237.5		Primary sector	3.8	(2.5)
In current prices (billion EUR)	178.7		Industry including construction	13.3	(26.6)
Latest 5-year average real growth (%)	-4.9	(1.9)	Services	82.8	(73.1)
Per capita (000 USD PPP)[b]	25.3	(39.2)			

GENERAL GOVERNMENT
Per cent of GDP

Expenditure[b]	49.4	(41.9)	Gross financial debt[b]	184.1	(110.3)
Revenue[b]	45.9	(37.7)	Net financial debt[b]	141.3	(68.0)

EXTERNAL ACCOUNTS

Exchange rate (EUR per USD)	0.753		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.621		Mineral fuels, lubricants and related materials	38.4	
In per cent of GDP			Manufactured goods	13.8	
Exports of goods and services	32.9	(49.2)	Food and live animals	13.7	
Imports of goods and services	35.2	(46.0)	Main imports (% of total merchandise imports)		
Current account balance	-2.1	(-0.1)	Mineral fuels, lubricants and related materials	34.3	
Net international investment position (2013)	-125.4		Machinery and transport equipment	17.7	
			Chemicals and related products, n.e.s.	13.8	

LABOUR MARKET, SKILLS AND INNOVATION

Employment rate for 15-64 year-olds (%)	49.4	(65.7)	Unemployment rate, Labour Force Survey (age 15 and over) (%)	26.5	(7.3)
Men	58.0	(73.6)	Youth (age 15-24, %)	52.4	(15.0)
Women	41.1	(57.9)	Long-term unemployed (1 year and over, %)	18.4	(2.7)
Participation rate for 15-64 year-olds (%)	69.7	(71.2)	Tertiary educational attainment 25-64 year-olds (%, 2013)	27.4	(33.3)
Average hours worked per year (2013)	2 037	(1 771)	Gross domestic expenditure on R&D (% of GDP, 2013)	0.8	(2.4)

ENVIRONMENT

Total primary energy supply per capita (toe)	2.0	(4.1)	CO_2 emissions from fuel combustion per capita (tonnes, 2012)	6.1	(9.6)
Renewables (%)	10.9	(9.1)	Water abstractions per capita (1 000 m^3,2007)	0.8	
Fine particulate matter concentration (urban, PM10, µg/m^3, 2011)	35.3	(28.0)	Municipal waste per capita (tonnes, 2012)	0.5	(0.5)

SOCIETY

Income inequality (Gini coefficient, 2012[c])	0.340	(0.308)	Education outcomes (PISA score, 2012)		
Relative poverty rate (%, 2012[c])	15.2	(11.1)	Reading	477	(496)
Median equivalised household income (000 USD PPP, 2010)	15.3	(20.4)	Mathematics	453	(494)
Public and private spending (% of GDP)			Science	467	(501)
Health care (2012)	9.3	(9.2)	Share of women in parliament (%, December 2015)	19.7	(26.9)
Pensions (2011)	14.7	(8.7)	Net official development assistance (% of GNI)	0.11	(0.36)

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 exist for at least 29 member countries

b) 2013 for the OECD aggregate.

c) 2010 for the OECD aggregate.

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

Acronyms

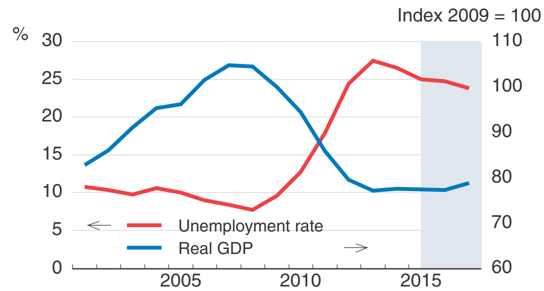
ADMIE	Independent Power Transmission Operator
ASEP	Supreme Council for Civil Personnel Selection
CEO	Chief executive officer
ECB	European central bank
EFSF	European Financial Stability Facility
EO98	OECD Economic Outlook, volume 98
EPL	Employment protection legislation
ESF	European Social Fund
ESM	European stability mechanism
ESY	Greek National Healthcare Service
ETCR	Energy, transport and communications
ETEA	Supplementary pensions under a unified fund
EU	European Union
FDI	Foreign direct investment
GCR	Government Council of Reform
GDP	Gross domestic product
GNTO	Greek National Tourism Organisation
GMI	Guaranteed minimum income
GSPR	General Secretary of Public Revenue
GVC	Global value chains
HCC	National competition commission
ICT	Information and communications technology
IfG	Institution for Growth
IMF	International monetary fund
JMD	Joint ministerial decision
KBC	Knowledge based capital
KfW	Kreditanstalt für Wiederaufbau - German development bank
MNEs	Multinational enterprises
MoU	Memorandum of understanding
NBG	National Bank of Greece
NPL	Non-performing loan
NREAP	National Renewable Energy Action Plan
NTFS	National Trade Facilitation Strategy
OAED	Public employment service
OEK	Main housing subsidy
OLS	Ordinary least-squares
OTC	Over-the-counter
PMR	Product market regulation
PPC	Public Power Corporation
PPP	Public-private partnerships
ROSCO	Hellenic Company for Rolling Stock Maintenance
R&D	Research and development
RIA	Regulatory impact assessments
SME	Small and medium enterprises
STRI	Services Trade Restrictiveness Index
TSO	Transmission system operator
TFP	Total factor productivity
VAT	Value added tax
VET	Vocational education and training
WB	World bank
WGI	Worldwide Governance Indicators
YEI	Youth Employment Initiative

Executive summary

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

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

Real GDP and unemployment rate



Source: Updated *OECD Economic Outlook 98 database.*

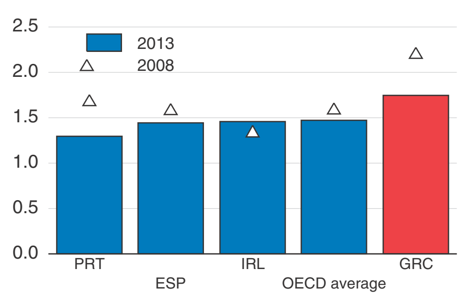
StatLink http://dx.doi.org/10.1787/888933337481

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

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

Product market regulation index

(0-6 from least to most restrictive)



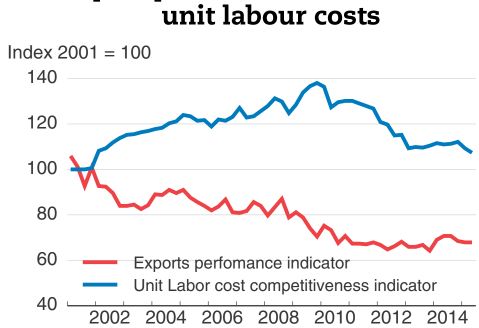
Source: OECD (2013), *Product Market Regulation Database.*

StatLink http://dx.doi.org/10.1787/888933337491

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

Stronger exports and investment are a key to sustained recovery

Export performance and relative unit labour costs



Source: Updated *OECD Economic Outlook 98 database.*

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

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

Main findings and key recommendations

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

Assessment and recommendations

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

Signs of a turnaround are accumulating

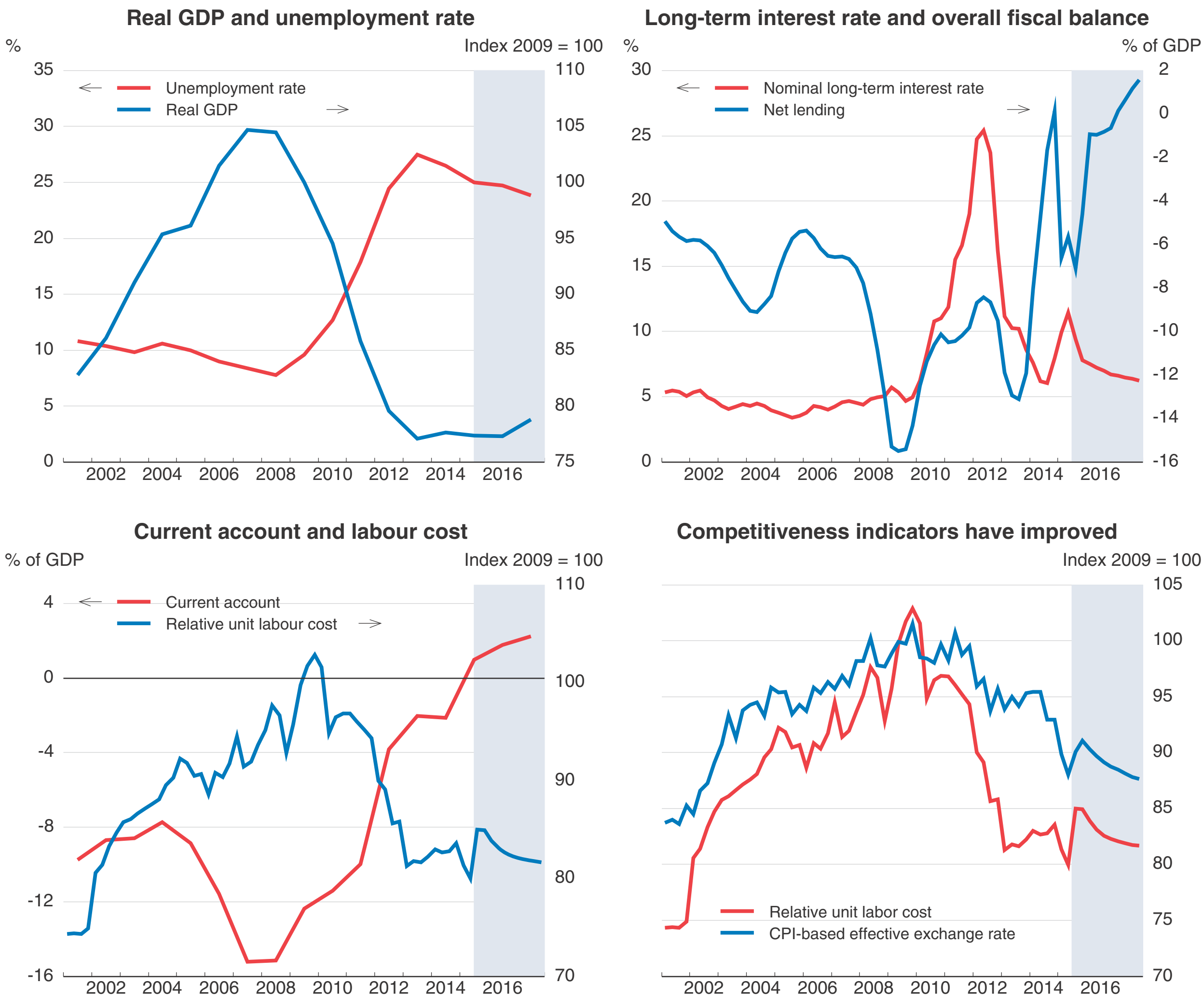
After Greece adopted the euro in 2001, low interest rates fuelled rapid credit growth, high economic growth and rising incomes, but they also distorted risk assessments and lead to a severe deterioration of the fiscal position, largely reflecting rising spending. Wages rose beyond productivity, gradually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

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

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

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

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



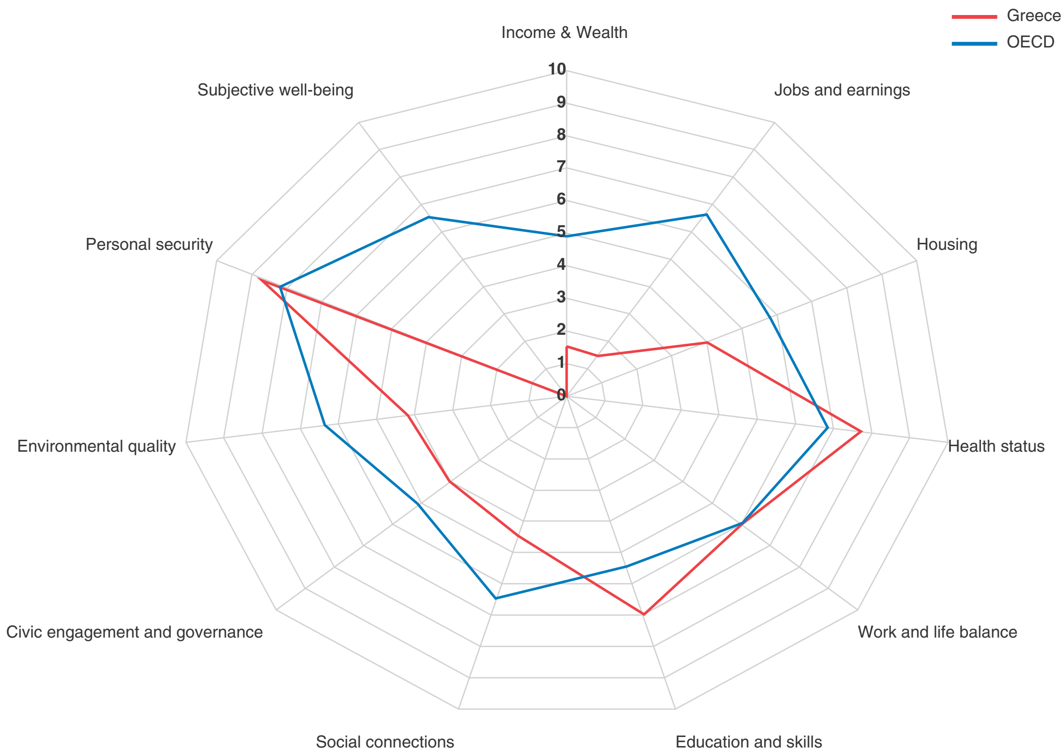
Source: Updated OECD Economic Outlook 98 database.

StatLink http://dx.doi.org/10.1787/888933336832

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

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

Well-being dimensions in 2015[1]



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

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

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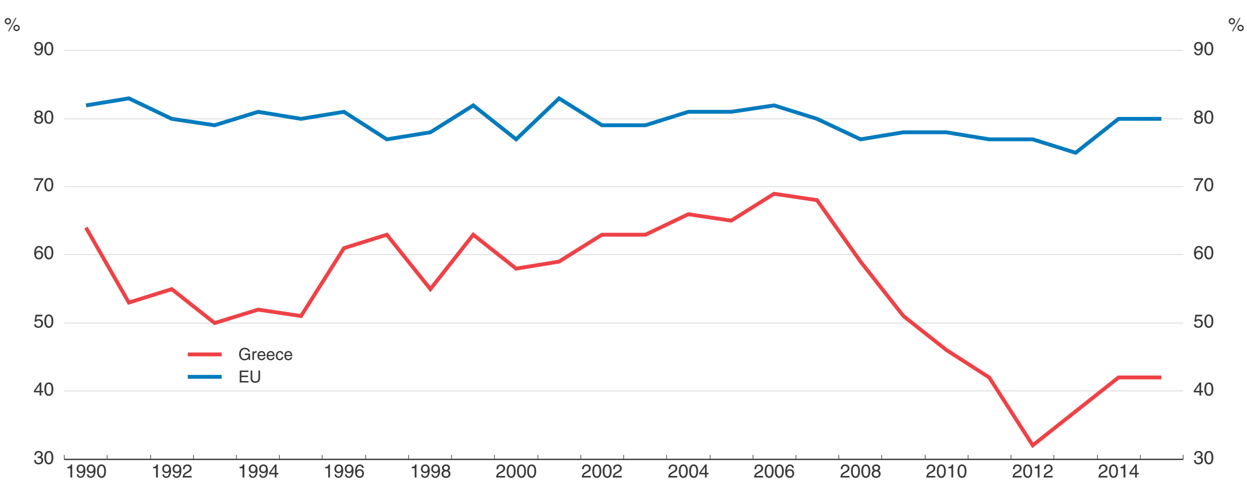
Figure 3. **Life satisfaction has declined significantly since the beginning of the crisis**

Percentage of respondents



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

Source: European Commission, Eurobarometer.

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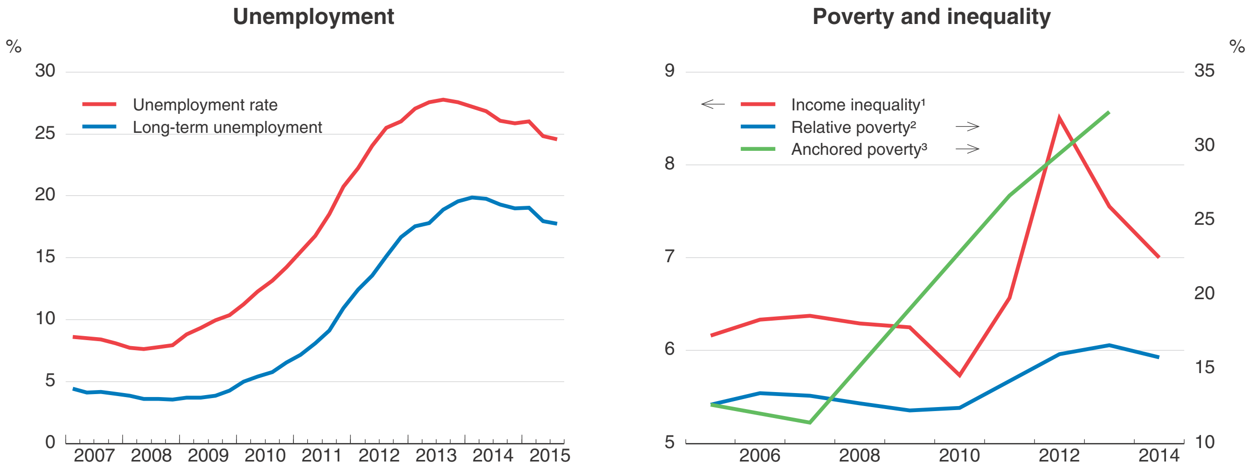
Figure 4. **The social cost of the crisis has been very high**

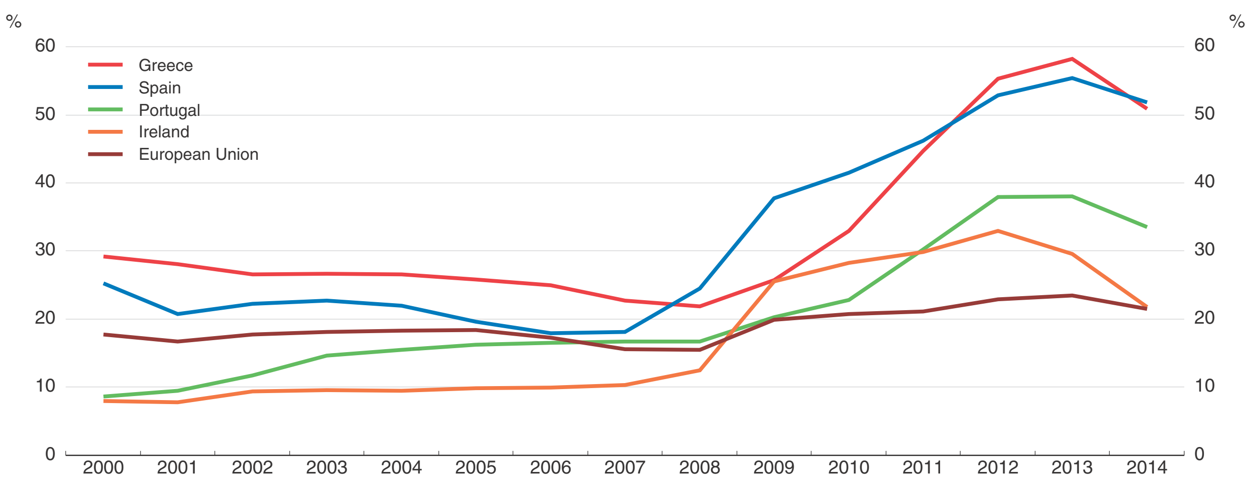


1. Measured as the ratio between the share of national income received by the ninth decile and the first decile.
2. Relative poverty rates after taxes and transfers (threshold of 50% of the median income).
3. The poverty line is fixed at 50% of median equivalised household disposable income in 2005.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

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

StatLink http://dx.doi.org/10.1787/888933336864

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



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

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

StatLink http://dx.doi.org/10.1787/888933336870

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

The main messages of this *Survey* are:

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

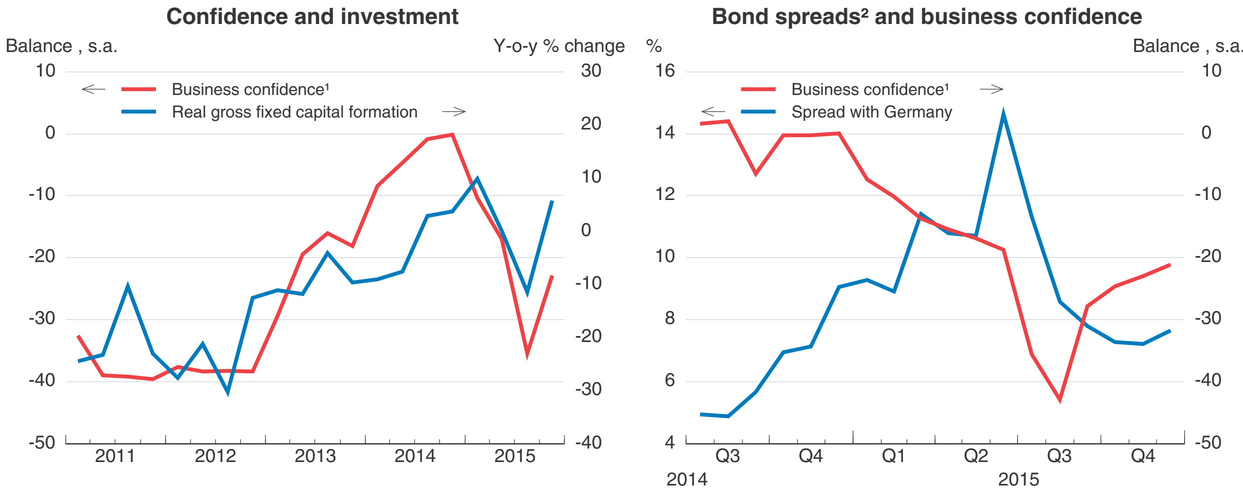
The recovery has faced some setbacks, but extreme downside risks have receded

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

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

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

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



1. Simple average of the 4 confidence indicators for Business: Manufacturing, Construction, Retail and Services.
2. 10 years-bond spread with respect to Germany.

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

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

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

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

Table 1. **Macroeconomic projections**

	Current prices € Billion	Percentage change, volume (2010 prices)				
	2012	2013	2014	2015	2016	2017
GDP at market prices	191.4	-3.1	0.7	-0.3	-0.1	1.9
Private consumption	133.7	-2.6	0.7	0.2	-0.1	1.3
Government consumption	41.7	-5.5	-2.4	-0.1	-2.1	-0.8
Gross fixed capital formation	24.1	-9.3	-2.6	0.9	8.6	5.7
Final domestic demand	199.5	-4.0	-0.3	0.3	0.5	1.4
Stockbuilding[1, 2]	0.5	-0.2	1.4	-1.7	-0.6	0.0
Total domestic demand	200.0	-3.7	1.1	-1.2	-0.3	1.4
Exports of goods and services	55.0	1.7	7.4	-3.8	-1.7	5.5
Imports of goods and services	63.7	-2.9	7.8	-6.9	-1.9	3.6
Net Exports[1]	-8.7	1.5	-0.3	1.2	0.1	0.5
Memorandum items						
GDP deflator	-	-2.9	-2.3	-0.6	-0.3	0.6
Harmonised index of consumer prices	-	-0.9	-1.4	-1.1	0.5	0.5
Private consumption deflator	-	-2.0	-2.8	-1.3	-0.1	0.8
Unemployment rate	-	27.5	26.5	25.0	24.7	23.8
General government financial balance[3, 4]	-	-12.5	-3.6	-6.0	-0.8	0.9
General government gross debt[5]	-	184.2	182.9	190.2	191.6	187.1
General government debt, Maastricht definition[3]	-	177.3	179.0	183.9	183.3	178.6
Current account balance[6]	-	-2.1	-2.1	1.0	1.8	2.2
Potential output growth	-	-1.1	-1.0	-0.5	0.1	0.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. National Accounts basis, as a percentage of GDP.
4. The data for the years 2012 and 2013 include the total impact of government support to financial institutions. Data also include Eurosystem bank profits on Greek government bonds remitted back to Greece. For 2015-17, data include the estimated government support to financial institutions and privatisation proceeds.
5. As a percentage of GDP at market value.
6. On settlement basis, as a percentage of GDP.

Source: Updated *OECD Economic Outlook 98 database.*

Box 1. **Possible shocks to the Greek economy**

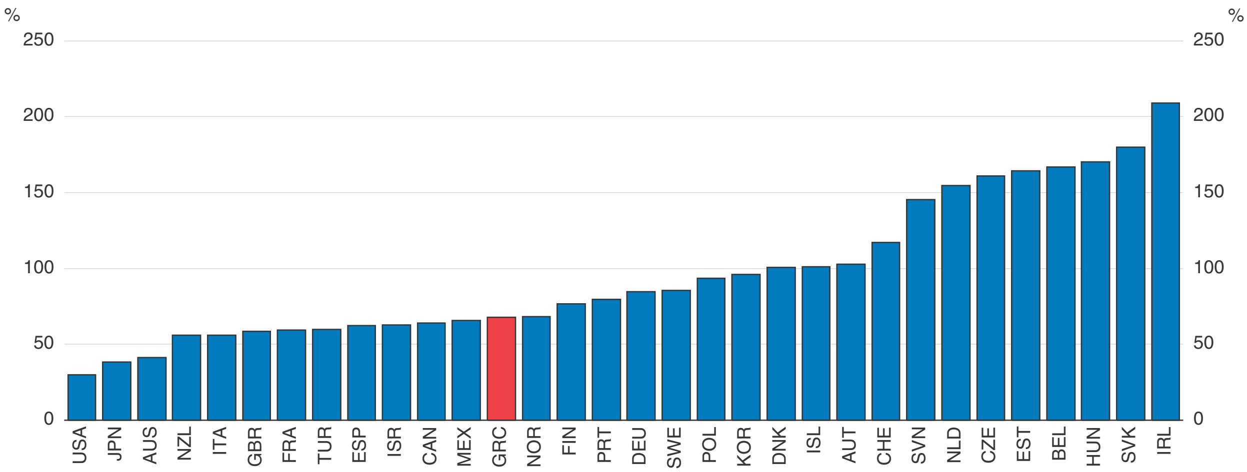
Potential shock	Possible outcome
The refugee crisis further intensifies.	The broader regional economy would suffer with severe implications for growth and fiscal balances.
Severe difficulties in the implementation of the ESM programme.	The risks of this happening have greatly diminished, but if it were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

Strong exports and investment are the keys to sustained recovery

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

Figure 7. **Trade openness is low compared to OECD countries**

2014



Source: *OECD National Accounts database.*

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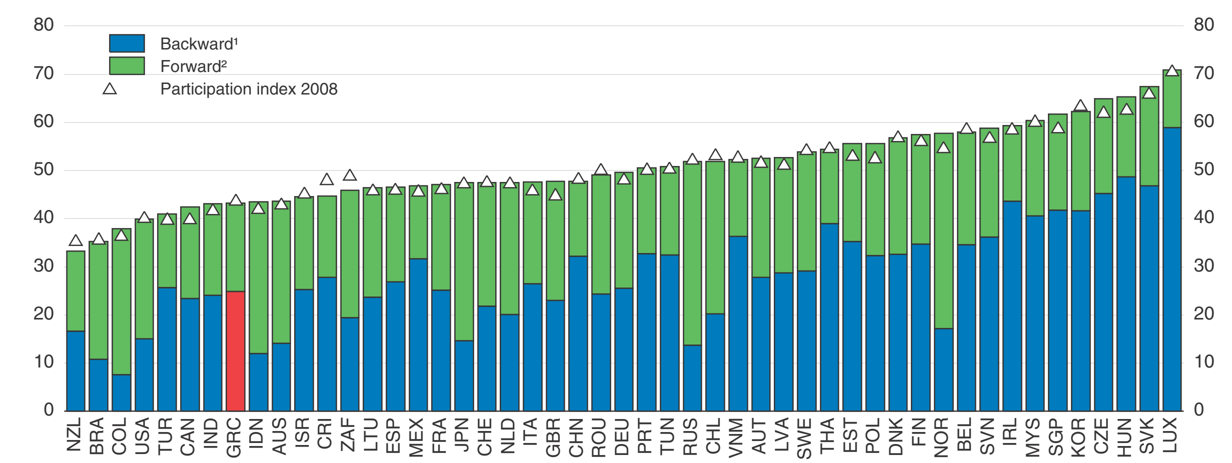
Figure 8. **Participation in global value chains is weak**

As a share of gross exports, 2011



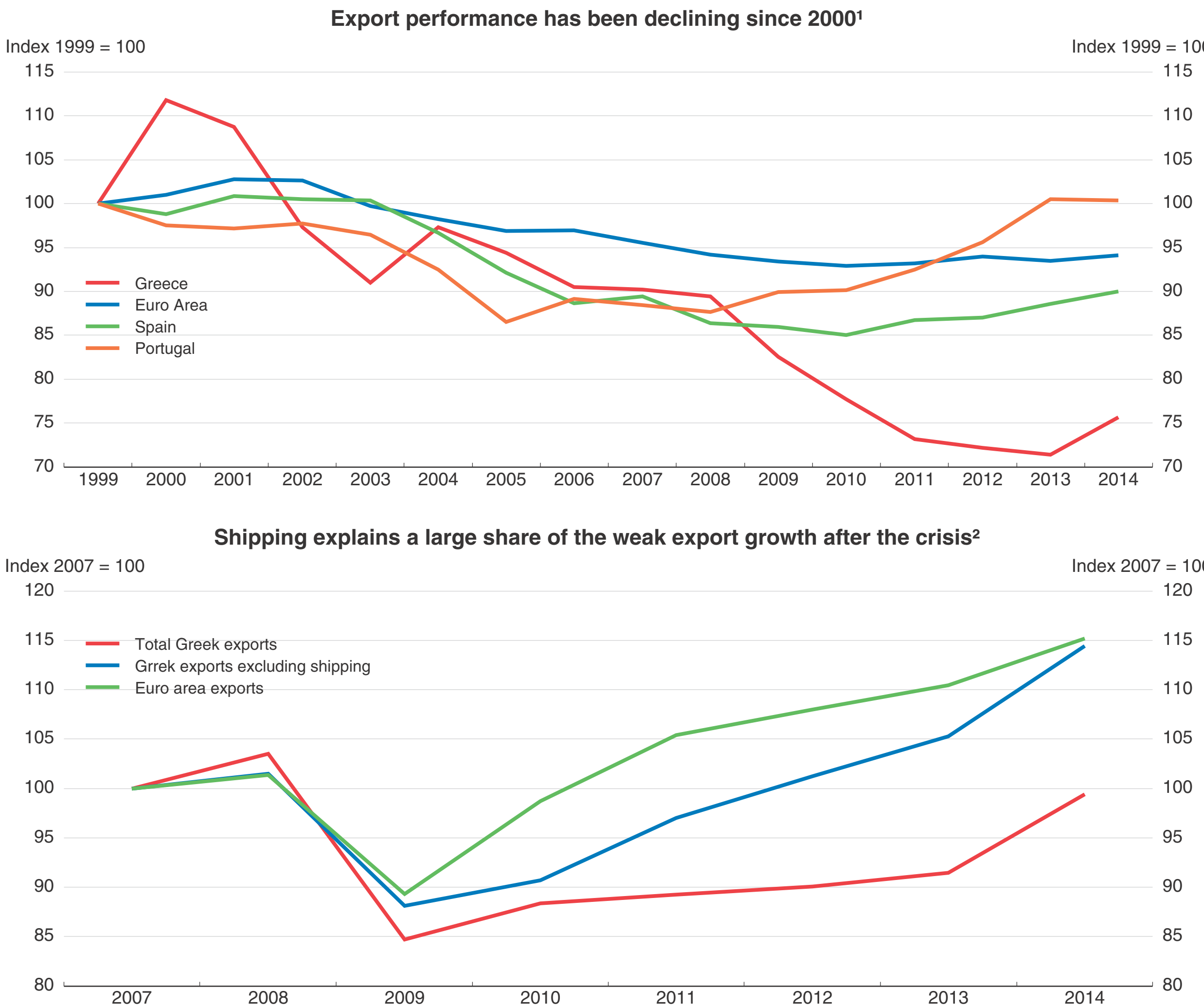
1. The indicator measures the value of imported inputs in the overall exports of a country (the remainder being the domestic content of exports). This indicator provides an indication of the contribution of foreign industries to the exports of a countries by looking at the foreign value added embodied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

Source: *OECD International Trade database.*

StatLink http://dx.doi.org/10.1787/888933336904

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

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



1. Export performance is calculated as the ratio of exports of goods and services to export market.
2. Real exports of goods and services. Nominal exports on shipping come from the Bank of Greece and have been deflated by the price of goods and services.

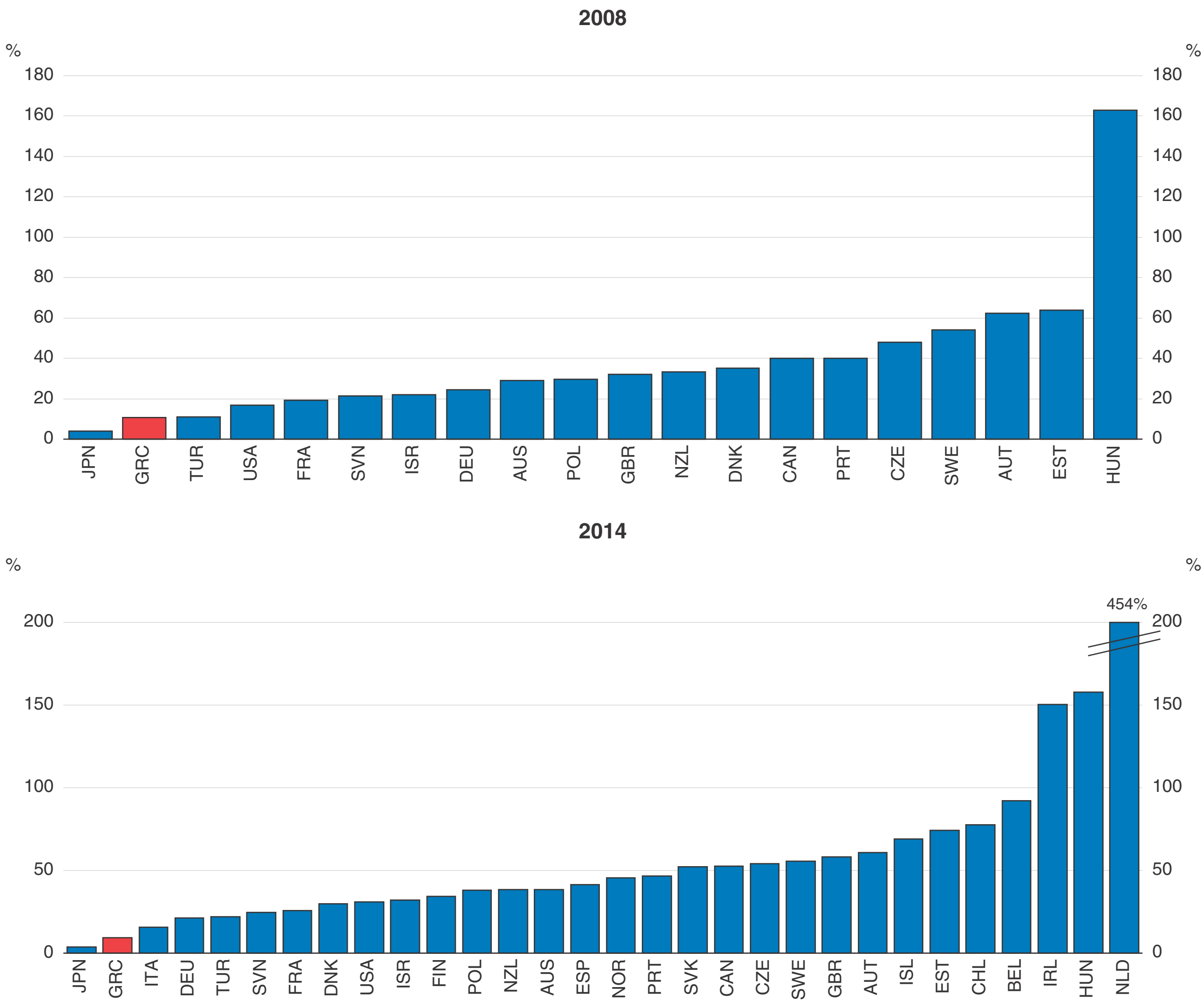
Source: OECD Economic Outlook 98 database.

StatLink http://dx.doi.org/10.1787/888933336912

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

Figure 10. **Foreign direct investment in Greece is low**

Inward position as percentage of GDP



Source: OECD (2015), *Globalisation database*.

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

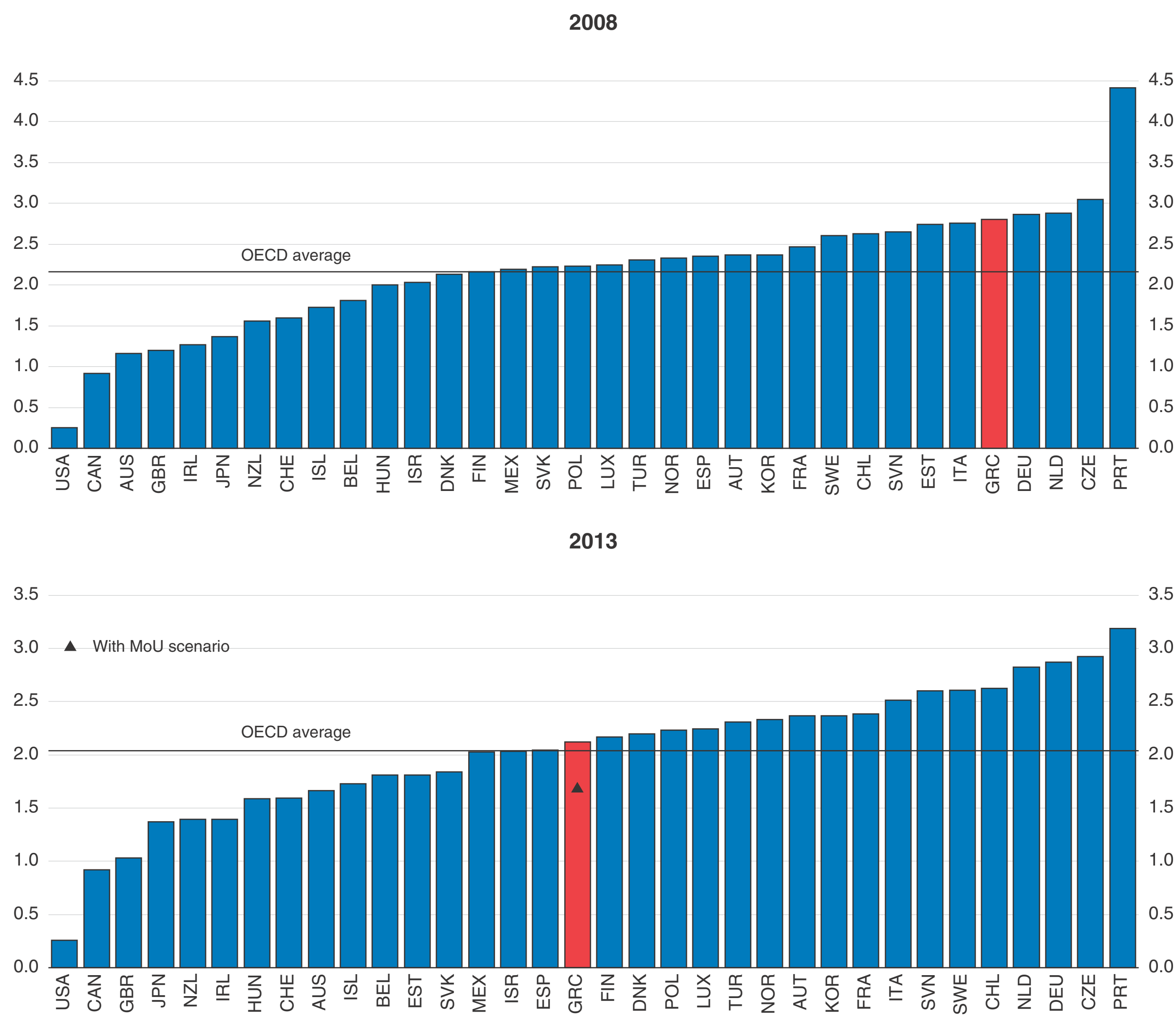
Public-private partnerships (PPP) would increase investment and operational efficiency if they brought private-sector expertise and capital to bear. PPP should not be used as a way to relax budget constraints. It is important that risk in these projects is correctly assessed and appropriately allocated between the public and private sectors, and that the explicit and implicit fiscal costs be transparently accounted for. The implementation of the Juncker Plan, which aims at providing an enabling regulatory environment for investment, would help in this regard. Finally, reducing the administrative burden for business further will help attracting foreign direct investments which are particularly low in Greece.

Improving employment opportunities

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

Figure 11. **Labour market regulations have eased**

Employment Protection Legislation (Index scale of 0-6 from least to most restrictive)



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

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

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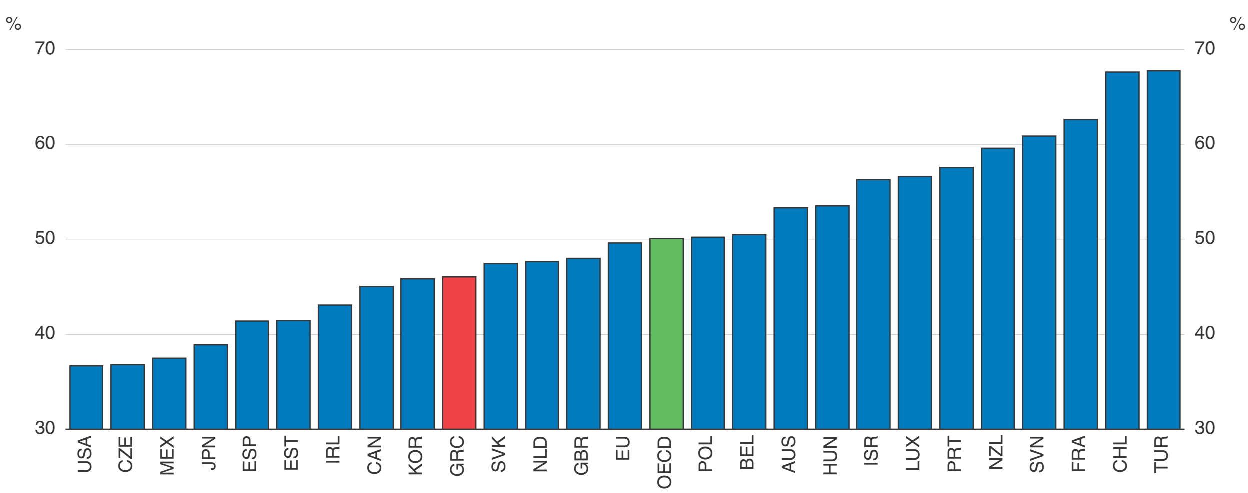
Recent labour market reforms have focused on introducing more flexibility. The minimum wage was reduced by one third in nominal terms at the end of 2011 and a lower wage for vulnerable groups was introduced. The minimum wage setting changed from a bargaining process to being set directly by the government.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

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

Minimum wage as percentage of median wage, 2014



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

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

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

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

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

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

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

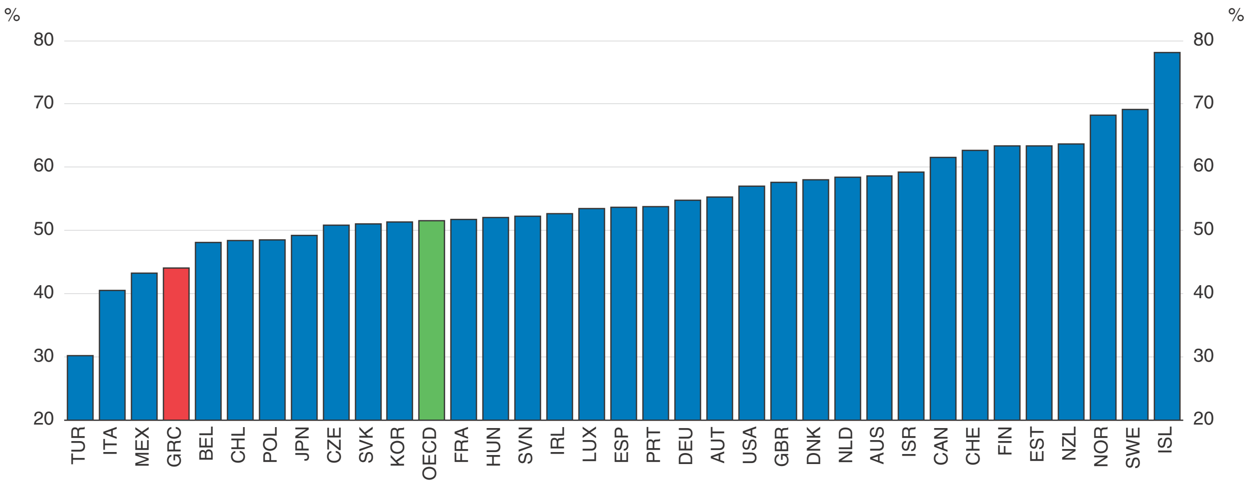
Strengthening fiscal policy is crucial for a sustained and inclusive recovery

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

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

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

2014



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

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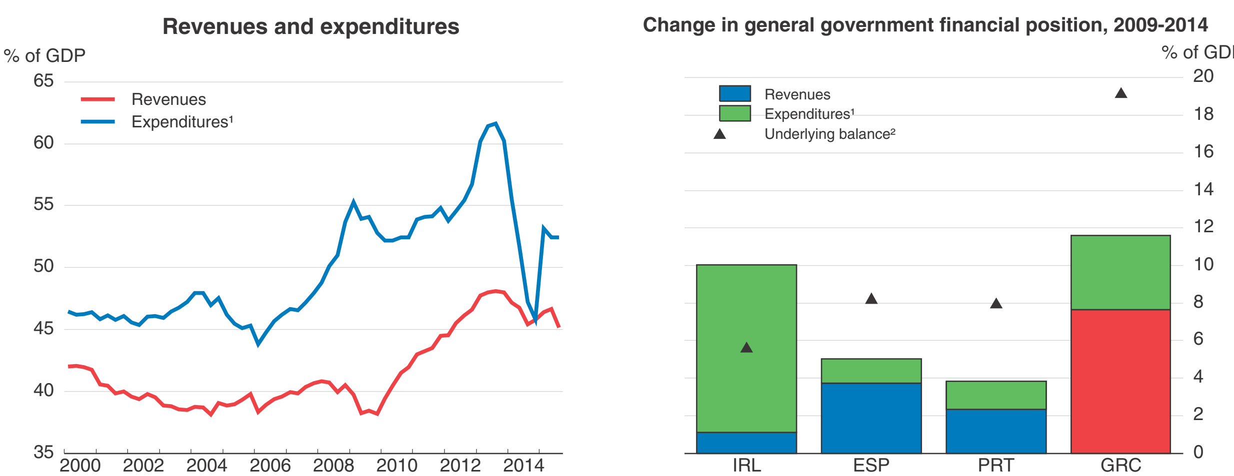
Figure 14. **Fiscal consolidation has been large**



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

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

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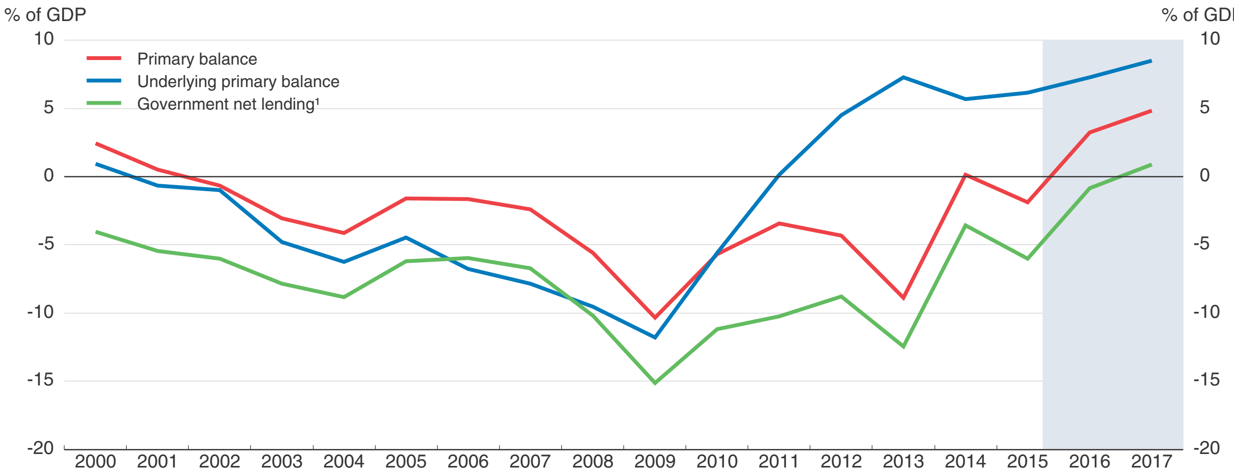
The fiscal deficit deteriorated temporarily in 2015 due to bank recapitalisation (Figure 15). However, the primary balance is projected to reach its targets of -0.25% of GDP in 2015 (excluding the bank recapitalisation), 0.5% of GDP in 2016 and 1.75% of GDP in 2017 as agreed in the 2015 MoU. From 2018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

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



1. Includes the banks recapitalizations in 2016 and privatisation proceeds.
Source: Updated *OECD Economic Outlook database 98.*

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

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

Strengthening the social safety net

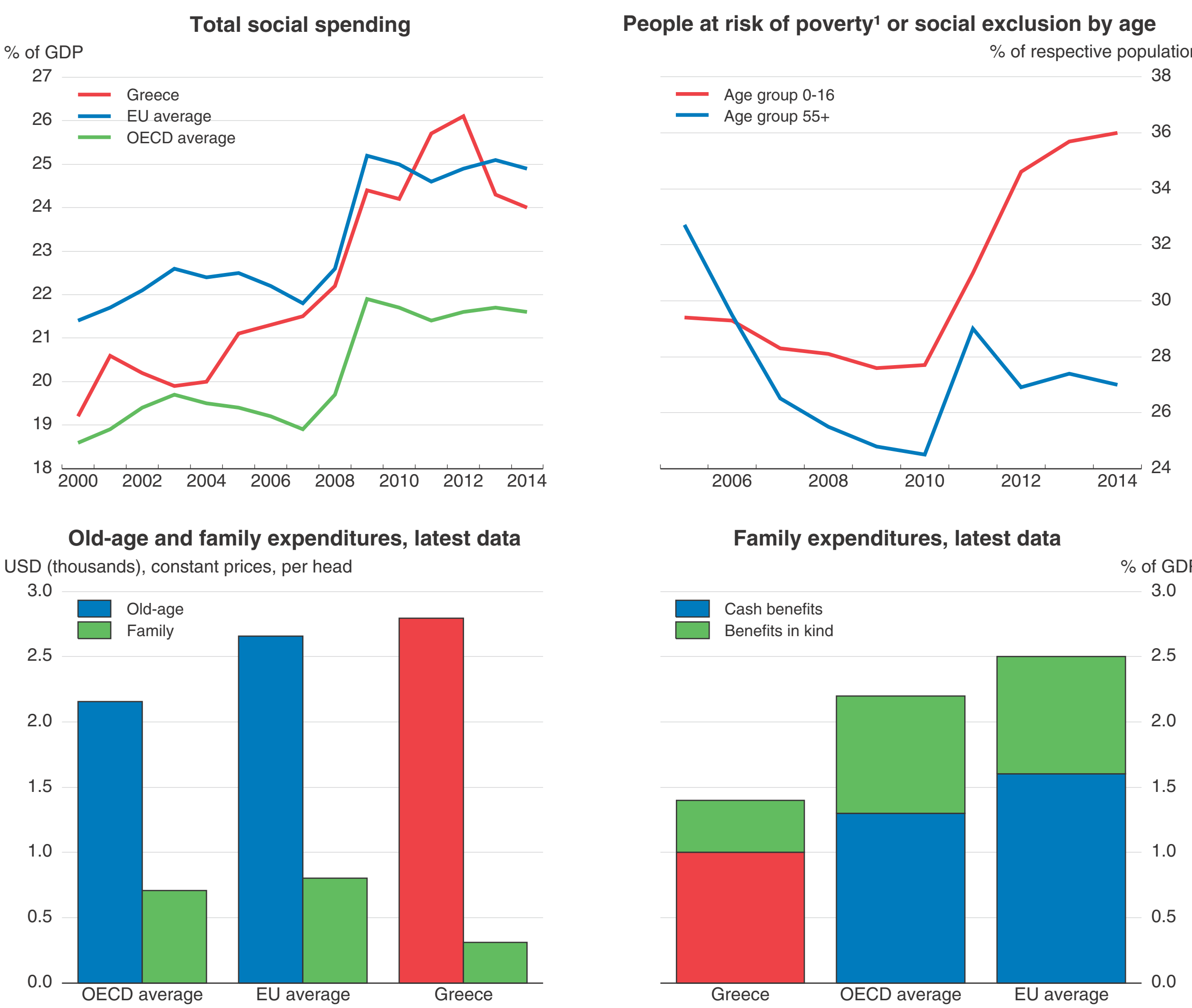
Developing a modern and sustainable social safety net will take considerable time and effort. As part of the 2015 MoU, the government has committed to undertake a comprehensive review of its social policies with the technical assistance of the World Bank. This will allow areas for improvement to be identified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

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

Social expenditure remains concentrated on old-age, mainly pensions, while the poverty profile has been shifting significantly. Child poverty is increasing, while old-age poverty is declining, at least when considering the people at risk of poverty (below 60% of median income). Some of the recent changes in benefits, notably the single child benefit, numerous family benefits and the social dividend, have mitigated but not reversed child poverty. Social expenditure remains around the EU average as share of GDP. The latest available detailed figures on social expenditures from 2012 show that family-related social benefits were low in per capita terms, while old-age benefits were generous compared to the OECD and EU averages (Figure 16). It is important to note that since then, fiscal consolidation measures have reduced social expenditures by two percentage points of GDP, mainly in the area of pensions.

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

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



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

Source: *OECD Social Policy database* and Eurostat.

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

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

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

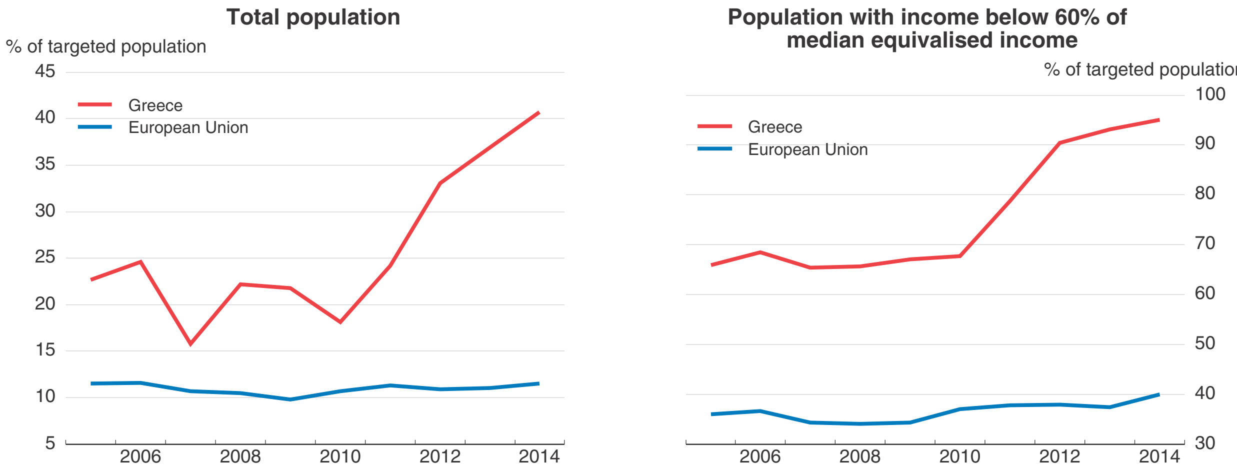
In the current tight fiscal situation, financing these programmes, which would represent around 1.5% of GDP, presents a challenge. Given the urgency to address the social crisis, the government should aim at alternatives, such as allocating part of the resources from savings generated elsewhere, e.g.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

Recent pension reforms and additional changes under discussion help sustainability

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

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

Housing cost overburden rate[1]



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

Source: Eurostat.

StatLink http://dx.doi.org/10.1787/888933336995

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

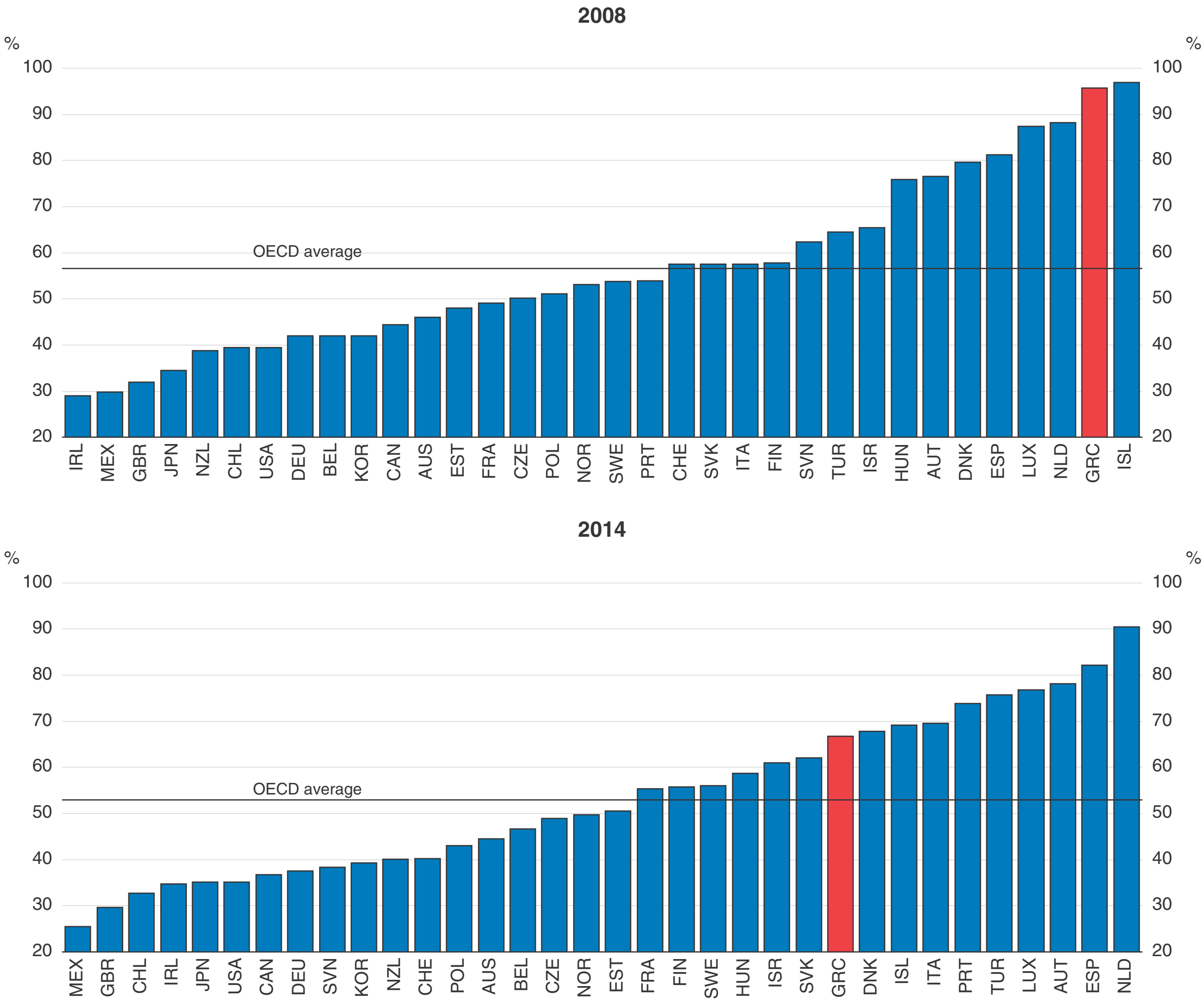
These reforms reduced projected long-term pension expenditures from 16.2% in 2013 to 14.3% of GDP by 2060 (EC, 2015b). The reforms resulted in a 30% decline in gross replacement rates, which had been unsustainably high prior to the crisis. However, gross replacement rates still are above the OECD average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

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

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

Figure 18. **Pension reforms have improved the system's long-term sustainability**

Gross replacement rate, single person[1, 2]



1. The gross replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings. It is a measure of how effectively a pension system provides income during retirement to replace earnings, the main source of income prior to retirement.
2. The replacement rate for Greece does not take into account supplementary pensions.

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

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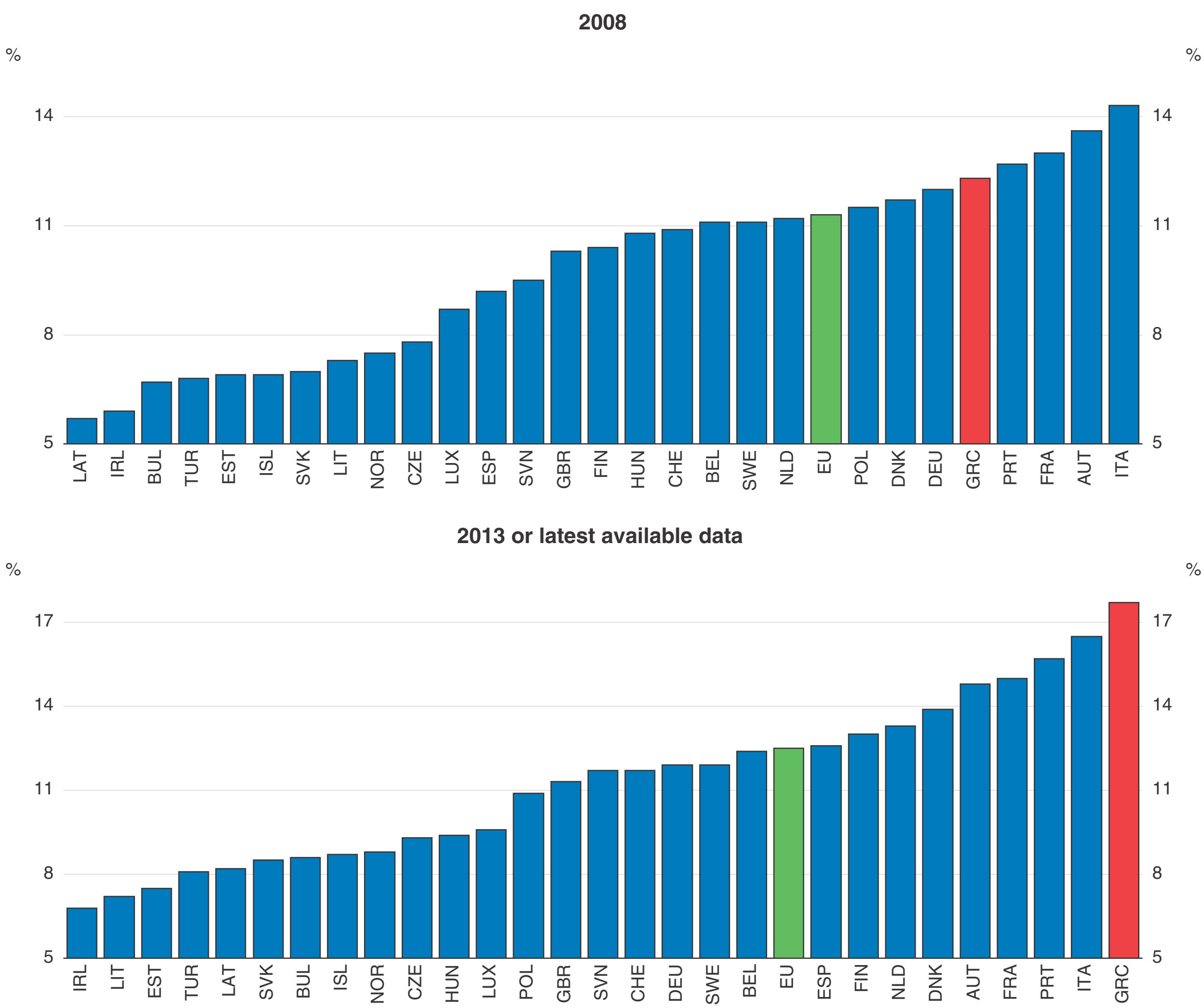
declared pension cuts undertaken in 2012 as unconstitutional, requires alternative legislation to neutralise its fiscal implications. Furthermore, a number of special regimes linked both to benefits and contributions still persist. For example, self-employed workers are allocated in 14 income levels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

Another preferential regime related to benefits of workers in agriculture is the provision of a basic pension (EUR 360 or less) without necessarily contributing to the system. Moreover, employees of certain banks who entered employment before 1993 can also retire particularly early: women at the age of 45 and with 20 years of contributions, and men at the age of 55 with 25 years of contributions. The existence of these different regimes points to a need for a rationalisation of exceptions to target those in need while, at the same time, safeguarding the viability of the social security system.

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

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

Gross public pension expenditure



Source: Eurostat.

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

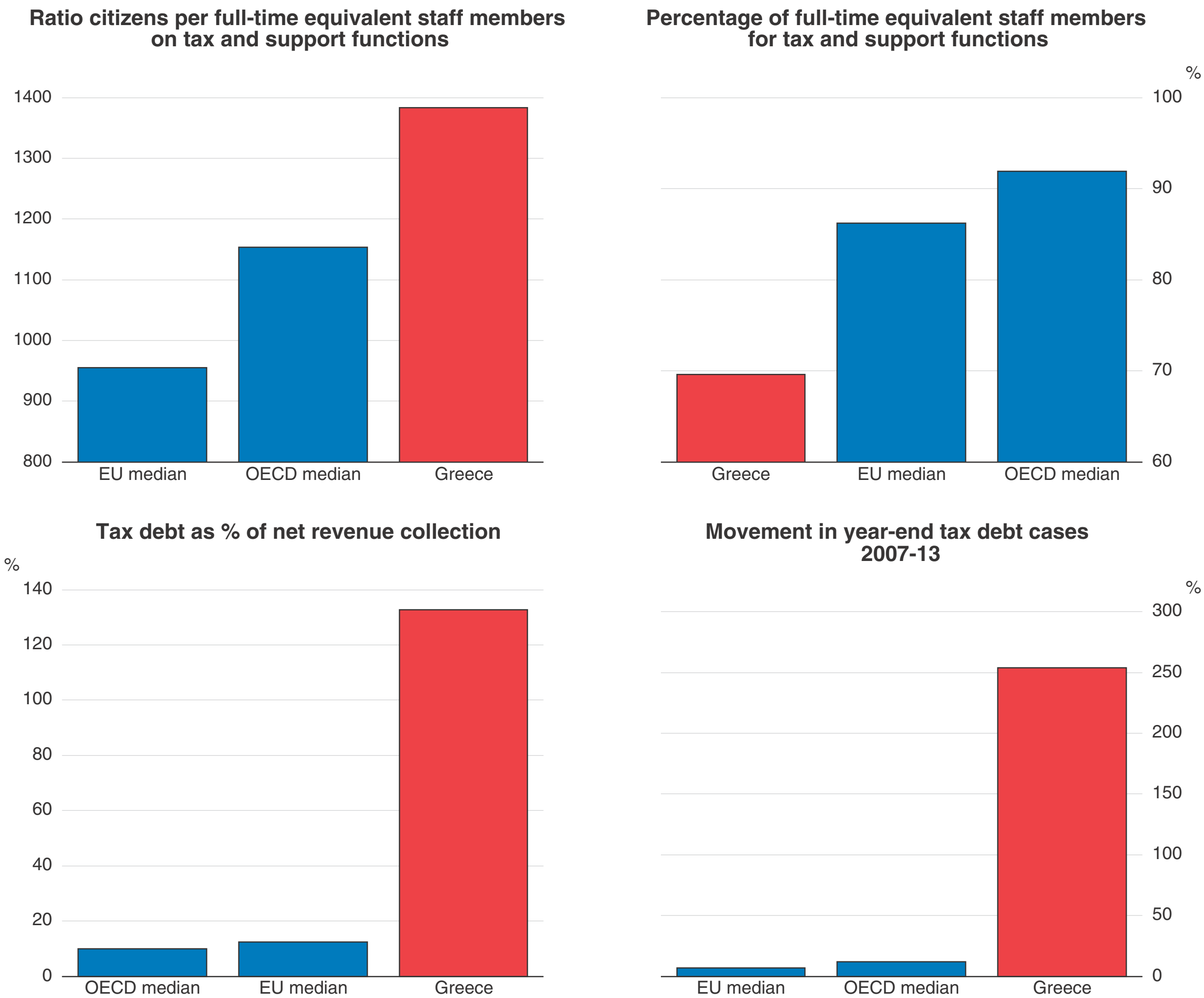
Fighting tax evasion to increase fairness and raise revenue

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

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

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

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



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

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

Stronger fiscal institutions would improve fiscal policy outcomes

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

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

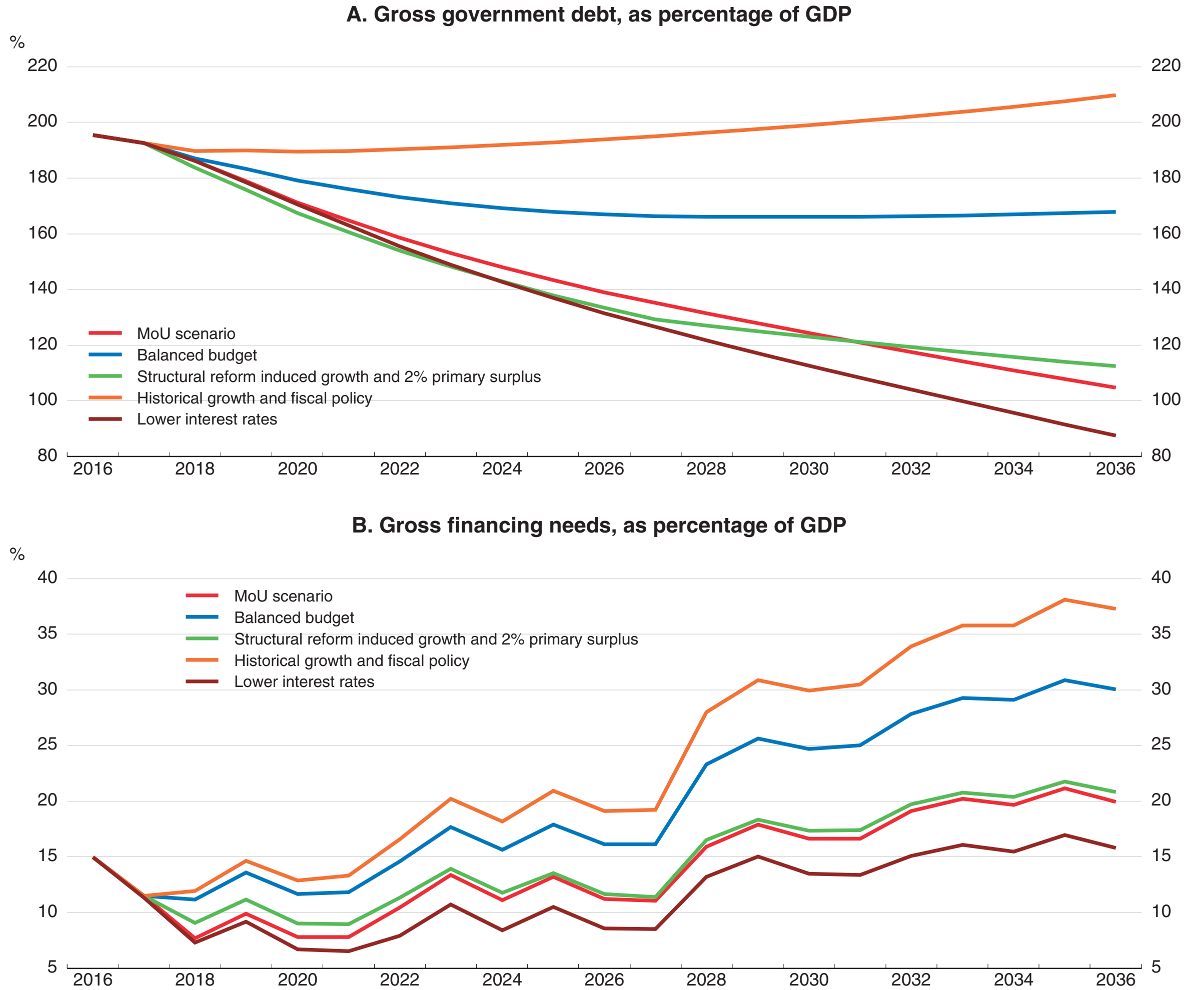
Dealing with high public debt

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

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

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

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



Note: The MoU scenario uses the primary targets agreed in the MoU (0.5% of GDP for 2016, 1.75% for 2017 and 3.5% onwards). The balanced budget scenario has the same values for 2016 and 2017, while in 2018 the primary balance is assumed to be 2.5% of GDP and from 2019 onwards a balanced primary budget. GDP growth for 2016 and 2017 is based on the updated projections from Table 1 and the EO98 and is assumed to accelerate afterwards and close ¾ of the output gap by 2026, averaging 2.5% in real terms between 2017 and 2026, while GDP deflator inflation is assumed to gradually move towards 2% by 2020. The structural reforms scenario adds 1.3% of real growth per annum between 2018 and 2027 based on the estimates presented in Table 2 below. The historical scenario assumes from 2019 onwards the primary balance is -0.6% of GDP and real GDP growth of 1.1% (the averages for 1988-2008). Interest rates for Panel A are based on the IMF's latest DSA and imply a gradual increase in the effective interest rate from 2.2% in 2016 to 4.5% by 2034. Gross financing needs are projected under the same assumptions, adding projections for interest rates related to EFSF, ESM and the Greek Loan Facility based on the latest long-term projections and EO98. The short-term interest rate for Greek debt is assumed to be 2% in 2016, 1.5% in 2017 and then converge to 2.25% by 2024. Greece is assumed to access markets again in 2019 with a 10-year zero-coupon bond at an interest rate of 5%. The lower interest rates scenario assumes that the EFSF/ESM rate will converge at a slower pace and to a lower rate (3.0% by 2034 and 3.5% by 2048), the rate for the Greek Loan Facility are adjusted accordingly, and the market debt for Greece is financed at 200 basis points above the long-term risk free rate. The projections assume that the ESM loans will amount to a total of EUR 66.4 billion, which differs from the initial envelope of 86 billion due to the reduced bank recapitalisation needs (EUR 5.4 billion instead of EUR 25 billion), and that all that future disbursements will be under the same financial conditions as those approved in August 2015. As the amount and terms of the IMF's participation is not yet determined, the simulations assume implicitly that the financing conditions will be the same as those of the ESM loan.
Source: Updated *OECD Economic Outlook No. 98 Database*, Memorandum of Understanding, OECD Calculations.

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

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

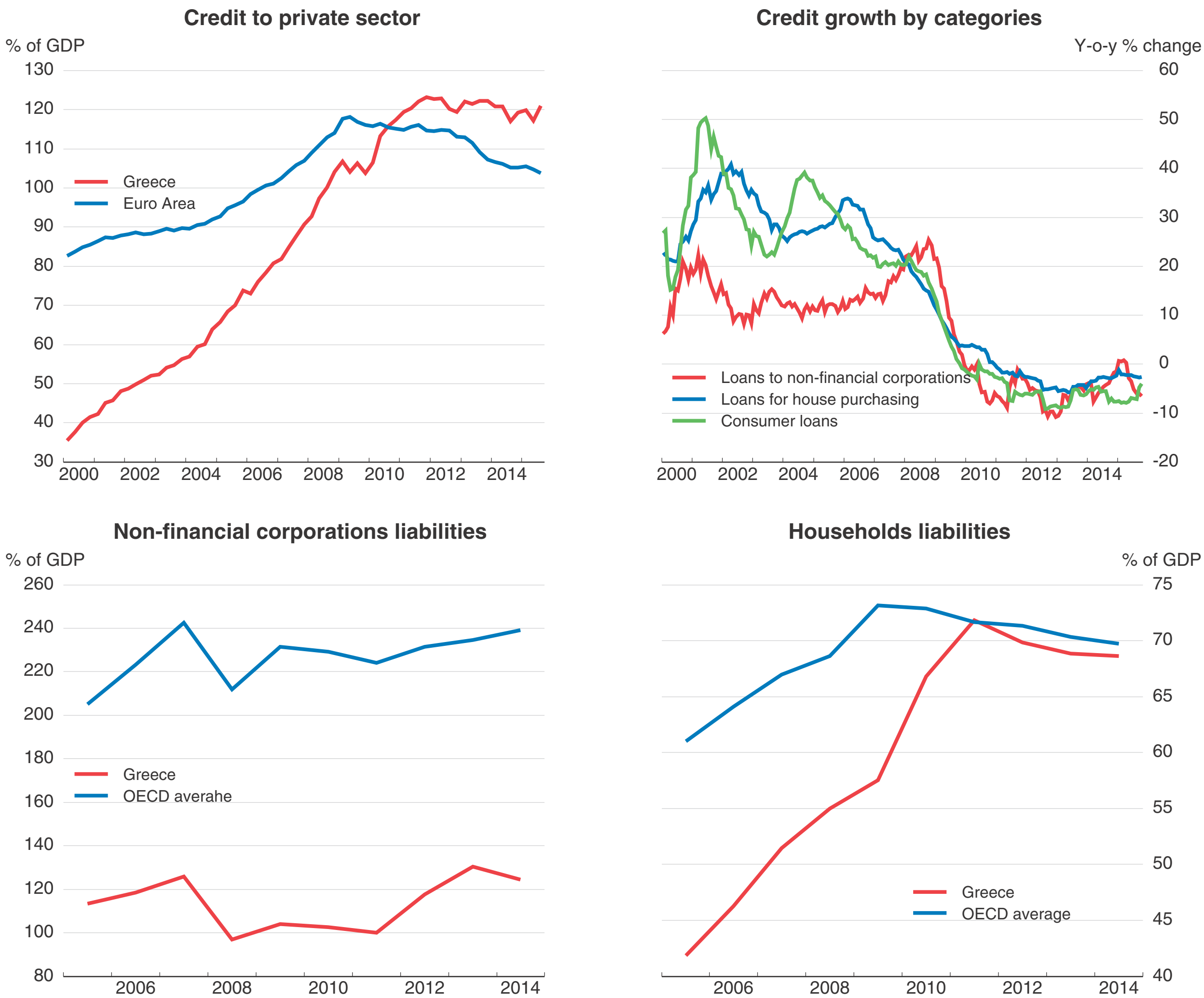
Some of the problems associated with the high public debt could be addressed by extending the average length of maturities and lowering interest-rates and rollover risks. The empirical evidence suggests that debt write-offs often outperform net-present-value restructurings in terms of subsequent growth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

Getting credit growth started again

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

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

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



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

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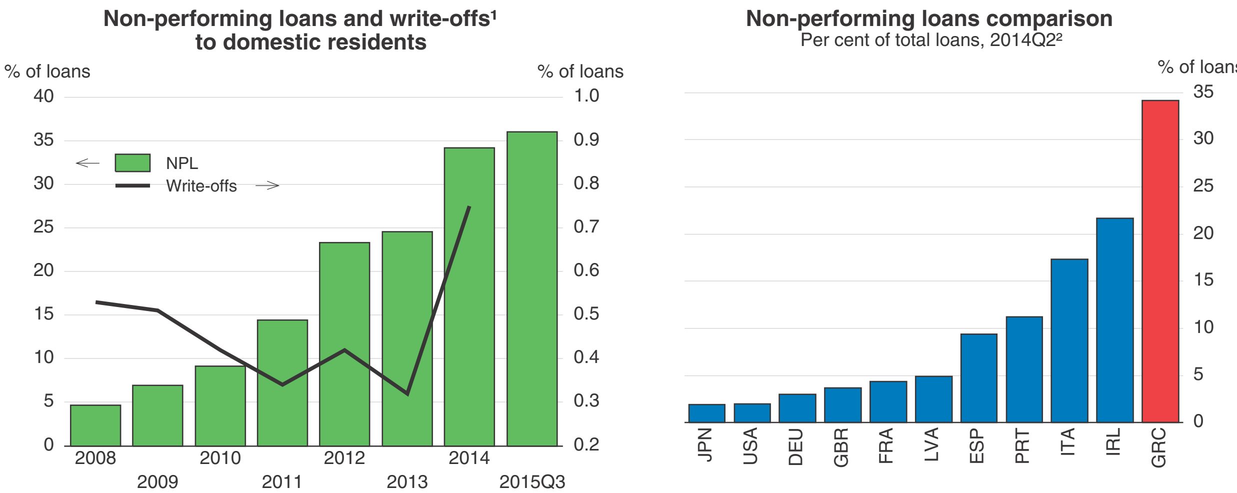
subsequent dependence on costly Emergency Liquidity Assistance (ELA) to bridge the funding gap. Banks were recapitalised and consolidated in 2014, and were recapitalised again in December 2015, following an ECB assessment in October 2015, with the public sector contributing just EUR 5.4 billion in fresh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

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

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



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

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

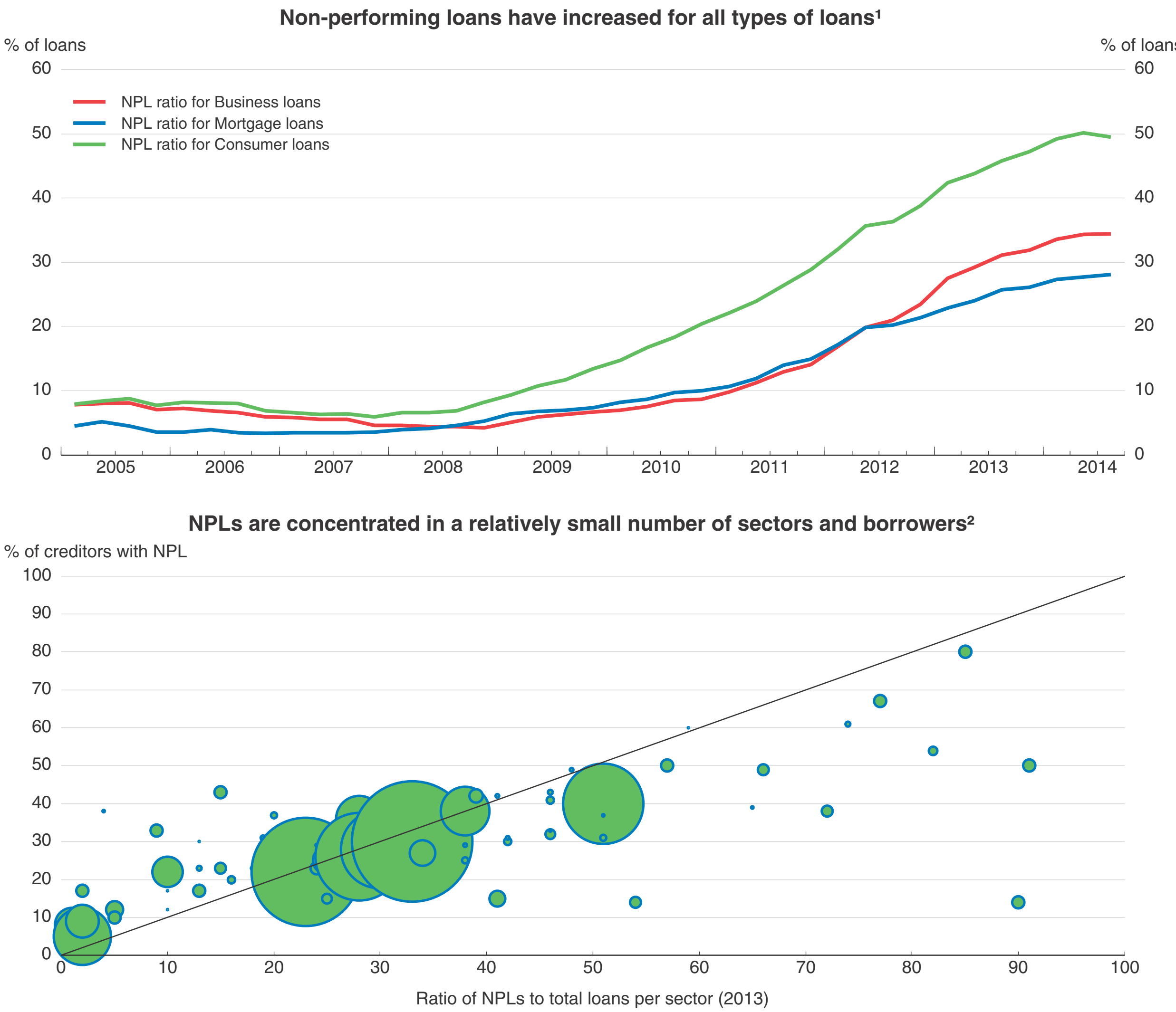
StatLink http://dx.doi.org/10.1787/888933337050

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

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

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

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



1. Data for all Greek commercial banks, Non-performing Loans defined as loans more than 90 days past due.
2. The bubbles represent the share of loans of each industry in total loans.

Source: Bank of Greece.

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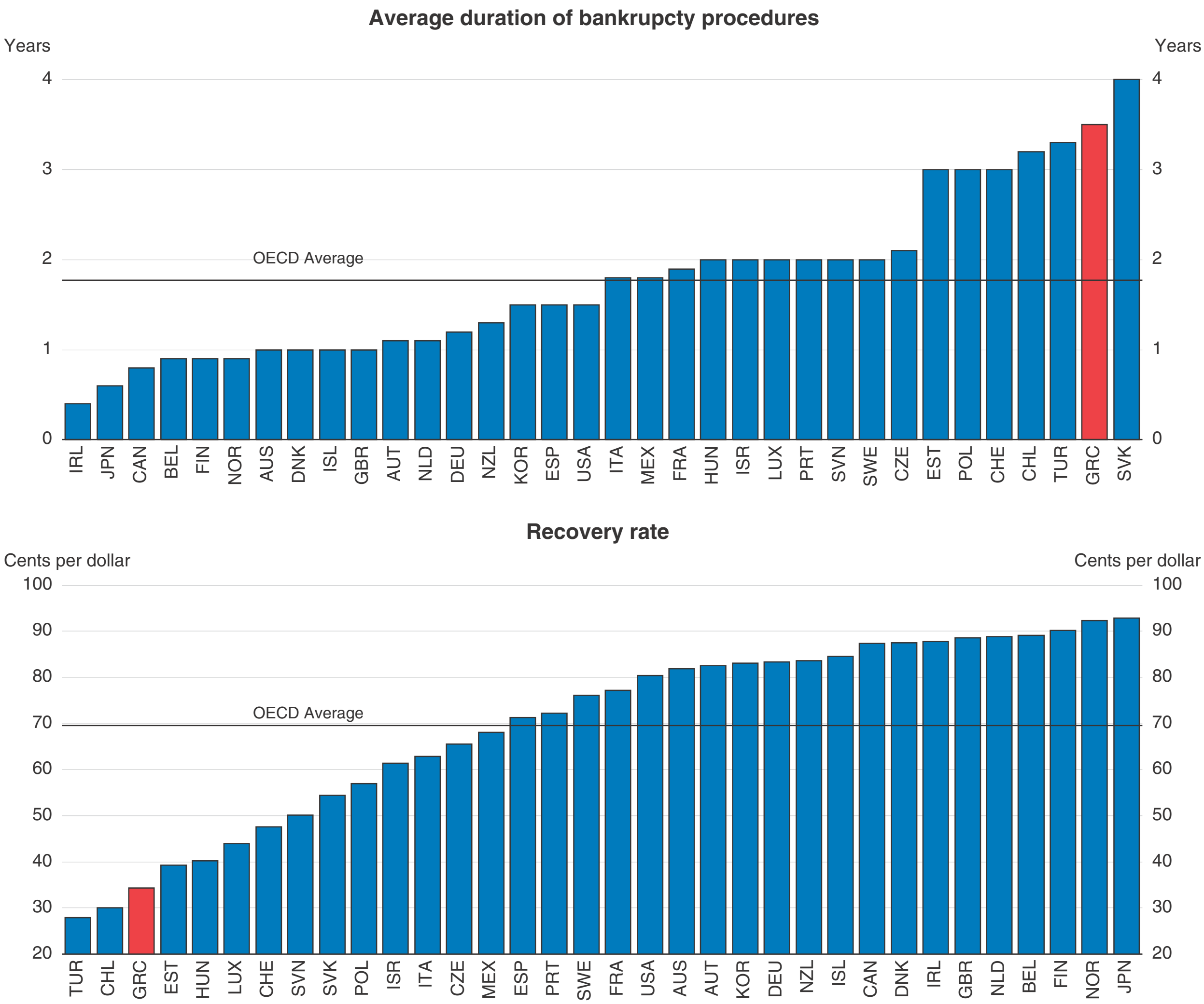
programme" to provide households under financial stress with debt relief proportionate to their current income for a period of up to four years (OECD, 2013). It also provided natural persons (with no resources to engage in insolvency procedures) the right to apply to County Courts and thus resolving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

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

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

2014



Source: *World Bank database.*

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

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

Stronger structural reforms bring higher growth and jobs

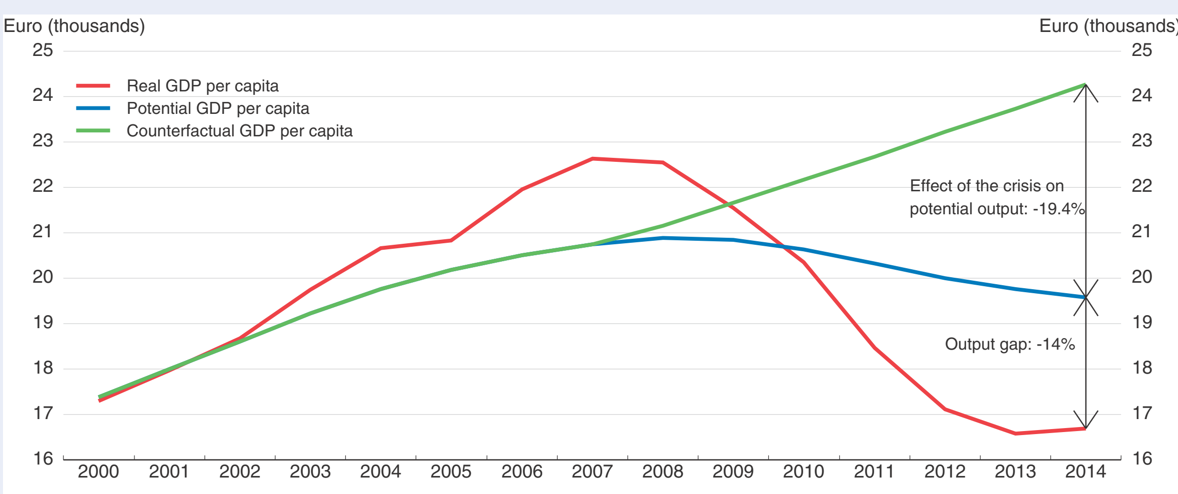
The macroeconomic and financial policies discussed above would support a cyclical recovery of the Greek economy, but would be insufficient to reach pre-crisis living standards soon. Stronger growth would make the debt burden more sustainable. Structural reforms to boost total factor productivity, reducing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

Box 2. **The effects of the crisis on potential output**

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

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

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



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

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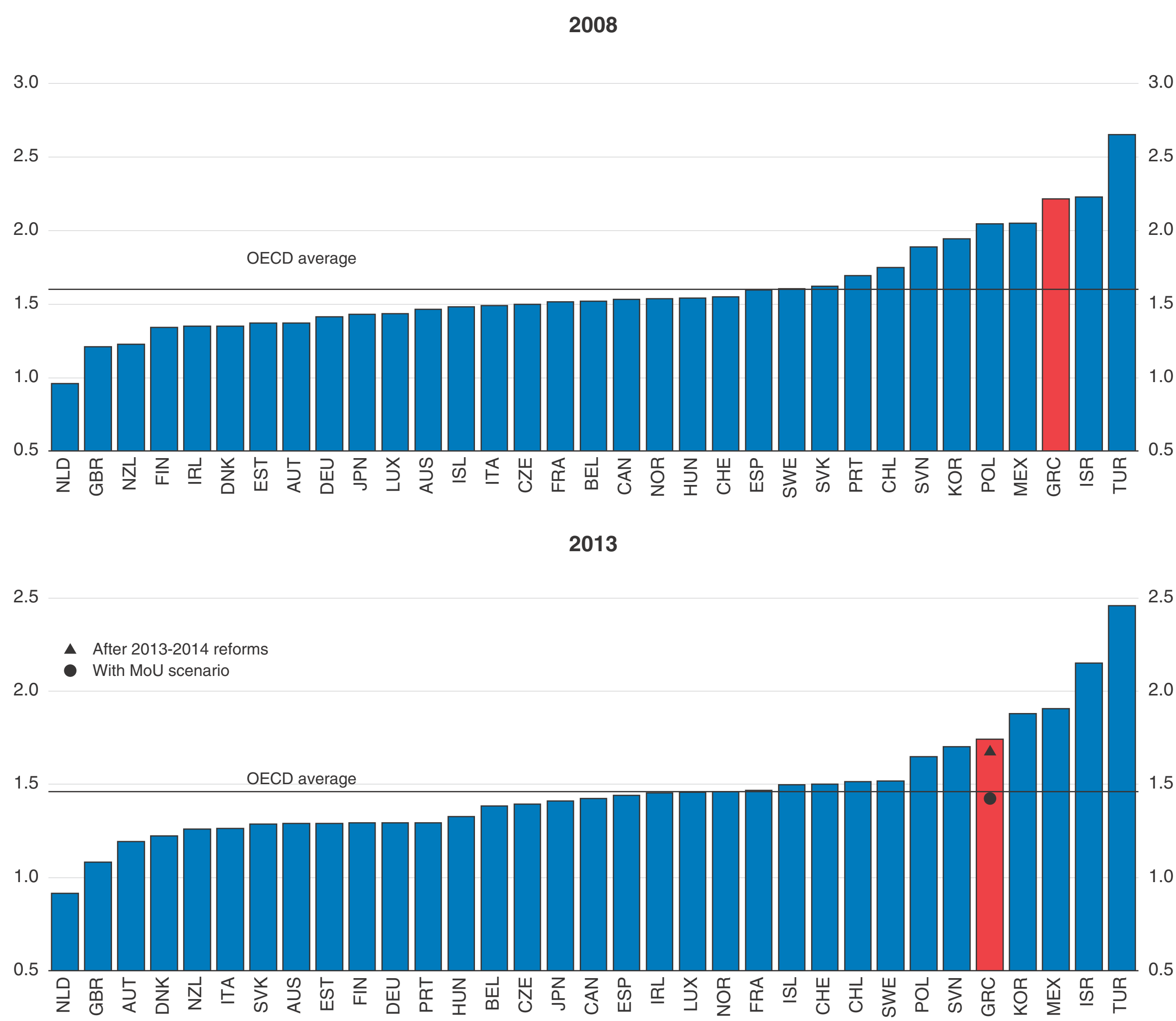
Reforms so far have not boosted growth as expected

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

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

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



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

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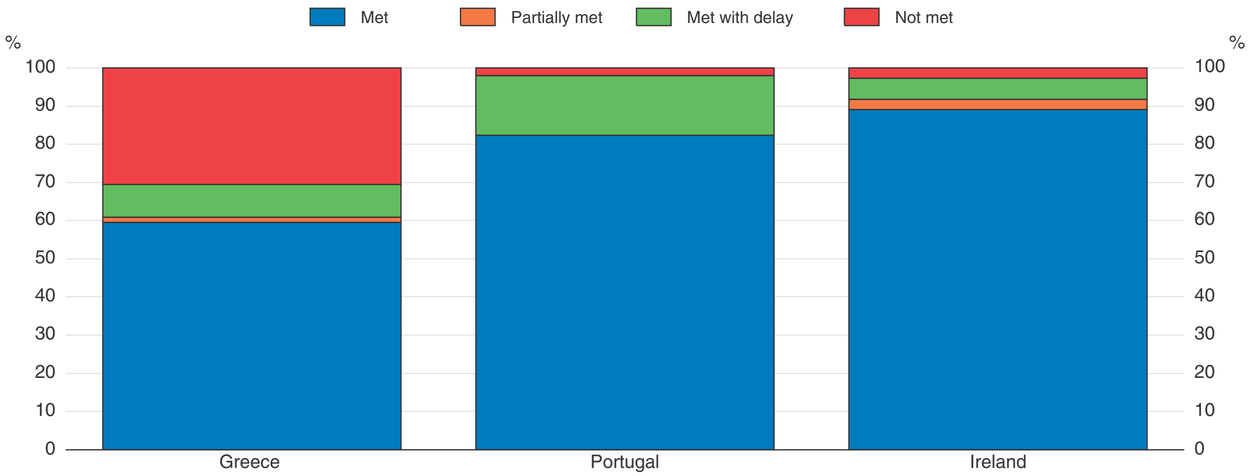
Figure 28. **Reform implementation has been weaker in Greece than in other EU countries**

Conditions or benchmarks of IMF loan programme)



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

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More product market reforms would boost growth substantially

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

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

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

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

Table 2. **Estimated impact of major reforms on real GDP over a 10-year horizon**[1]

Reform	GDP	Via Employment growth	Via Productivity growth
Reforms implemented 2010-14			
Product Market Reforms	**3.4**		**3.4**
Product market reform between 2010-13	2.9		2.9
Product market reform in 2013-14	0.5		0.5
Labour Market Reforms[2]	**0.9**	**0.6**	**0.3**
Employment Protection Legislation reform in 2010-13	0.3		0.3
Pension reform	0.6	0.6	
Tax Structure reform	**1.3**		**1.3**
Total implemented reforms	**5.6**	**0.6**	**5.0**
Reforms currently being implemented or planned in the MoU			
Product Market reforms	**4.4**		**4.4**
Network industries reform (electricity, gas, rail road and transport)	2.3		2.3
Other product market reforms[3]	2.1		2.1
Labour Market reforms	**2.4**		
Pension reform	2.2	2.2	
Employment protection legislation	0.2		0.2
Tax Structure reform	**0.8**		**0.8**
Bankruptcy reform	**0.2**		**0.2**
Total planned reforms	**7.8**	**2.2**	**5.6**
Total implemented and planned reforms	**13.4**	**2.8**	**10.6**

1. See Annex of Chapter 1 for the methodology used to estimate the impact of reforms.
2. Reforms to the wage bargaining system are not assessed in this exercise.
3. Includes reforms to reduce administrative burden, opening closed professions, trade facilitation and investment licensing.

Source: OECD calculations.

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

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

Another area where progress has been slow is the business climate. Greece has undertaken important reforms in creating a one-stop shop to deal with licenses to open and register a new business, including a common electronic platform that interconnects several government agencies, a reduction in registration fees and abolishing minimum capital requirements for limited liability firms. This led to a significant reduction in the cost of opening a firm in Greece. However, other aspects needed to start operations, such as registration of property, dealing with construction permits, getting electricity, and health inspections remain cumbersome. Therefore, despite progress in easing the burden of entry, the regulatory burden for operating a business in Greece continues to be heavy. A more co-ordinated approach to reform would help detecting complementarities across areas of reform.

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

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

Network sector reforms to raise competitiveness

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

Box 3. **OECD work with Greece regarding structural reforms**

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

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

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

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

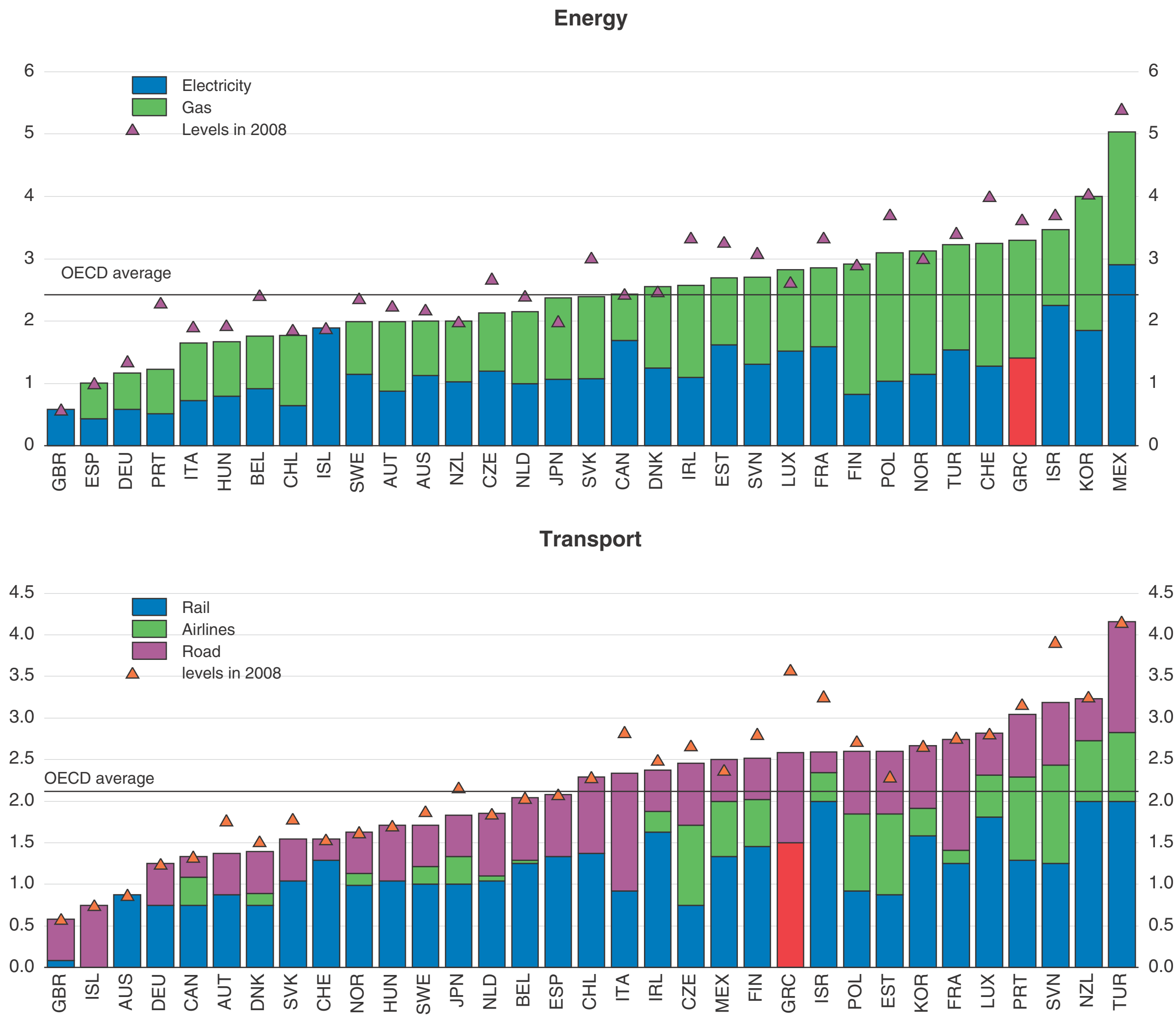
The 2015 MOU, reflects some of the areas where the OECD will collaborate with the Greek Government. The areas included are: labour market reform and vocational education and training; education, public procurement, and the launch a new competition assessment, targeting wholesale trade, construction,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

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

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

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

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



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

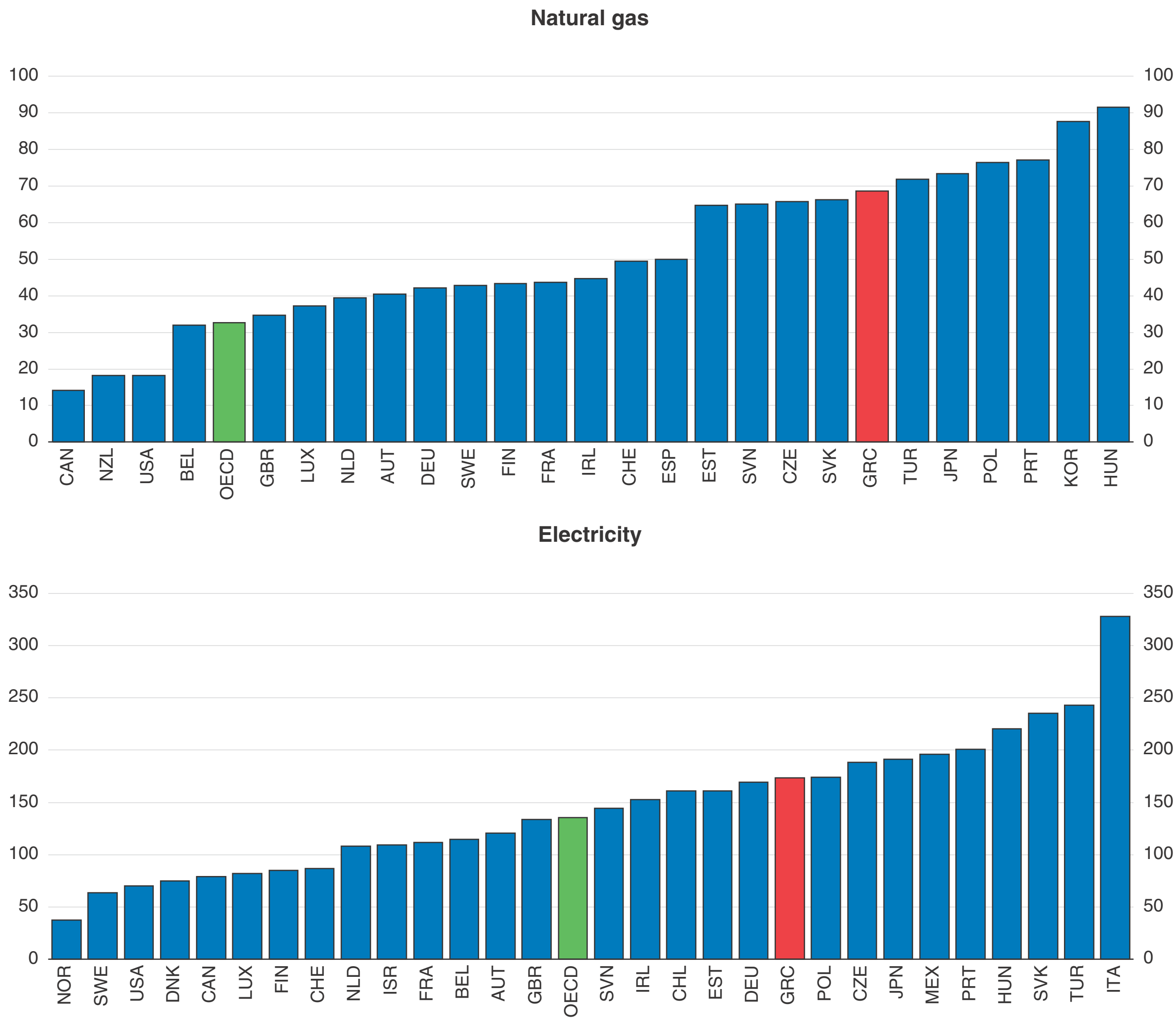
StatLink http://dx.doi.org/10.1787/888933337110

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

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

Figure 30. **Energy prices for industry**

MwH, in USD PPPs, 2014 or latest available year



Source: IEA.

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

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

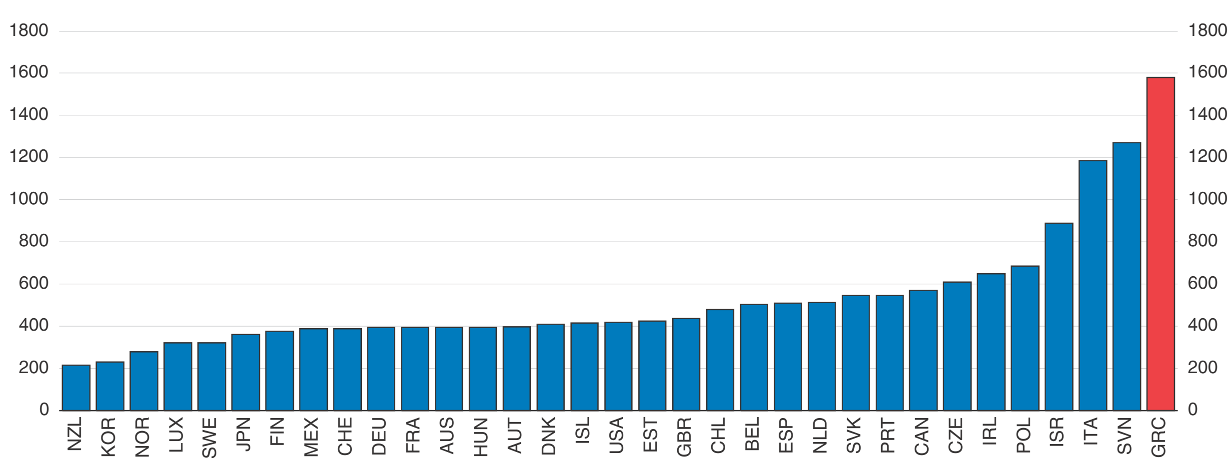
Bringing regulation in network industries in line with the OECD average, as planned in the 2015 MoU, would increase output by an estimated 2.3% in the next decade. Furthermore, it would lift exports considerably. Controlling for different firm characteristics (e.g. age, ownership and size), empirical evidence shows that the enhancing competition in network sectors has had a positive impact of Greek export performance since 2000 (Daude and De la Maisonneuve, 2016).

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

Improving the business environment

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

Figure 31. **Contract enforcement remains costly**



Source: World Bank Doing Business Database.

StatLink http://dx.doi.org/10.1787/888933337136

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

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

Financing is a major constraints for firms

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

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

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

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

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ANNEX

Progress in structural reform

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

Recommendations	Action taken since the previous *Survey*
A. Recommendations for fiscal policy and government reform	
Accelerating and broadening the structural reform programme is essential for sustainable recovery. In this respect, stronger reform ownership by all line-ministries, a better coordination of reform implementation and enhanced monitoring and evaluation of reform outcomes are essential. Evaluation results should be disseminated.	No action taken.
Implement fiscal consolidation measures as planned. If growth is weaker than expected, let the automatic stabilisers operate	In 2014 the general government primary surplus reached 0.3% of GDP, according to the methodology of the Economic Adjustment Programme. In the 2016 budget the general government primary balance is estimated at -0.2% of GDP and at 0.5% of GDP for 2015 and 2016 respectively, according to the methodology of the ESM Programme . According to the MOU for the 3-year ESM Programme, the primary surplus targets for 2015, 2016, 2017 and 2018 and beyond are -¼, 0.5, 1¾ and 3.5 % of GDP, respectively (in line with the methodology of the Programme). To this purpose, the yield of necessary fiscal measures is included in the 2016 budget and will also be included in the upcoming MTFS.
If negative macroeconomic risks materialise and nominal growth proves weaker than expected, even with full and timely implementation of structural reforms, serious consideration should be given to further assistance to achieve debt sustainability.	On 14 August 2015, the Eurogroup agreed on a new three-year ESM macroeconomic adjustment programme for Greece. In its statement, "the Eurogroup stands ready to consider, if necessary, possible additional measures (possible longer grace and repayment periods) aiming at ensuring that Greece's gross financing needs remain at a sustainable level."
Step up the fight against tax evasion by stopping tax amnesties and identifying and punishing evaders, and improving the effectiveness of audits. Improve the judicial system by overhauling and streamlining the civil code and making more use of out-of-court mediation systems.	A provision to stop tax amnesties has been included in law 4336/2015. A compulsory Special Administrative Process for administrative appeals has been established by Law 4174/2013, which concerns acts issued by the tax authorities since August 2013. It was established to serve cases that can be resolved immediately, as well as to act as a pre-audit stage for cases to be introduced to justice.
	The out-of court mediation was introduced in the Greek legislation by Law 3898/2010. It concerns the possibility of out-of-court settlement for civil and commercial cases that are not applicable to mandatory rules. The process is confidential, and if there is an agreement between the parties, the agreement is binding for them and can gain strength of a judicial decision (enforceability) under certain conditions.
Further enhance the efficiency of public administration, inter alia, through the development of e-government and the evaluation of staff performance based on clear individual objectives.	Restructuring in the public sector has been stipulated with the laws 4024/2011 and 4178/2013. The process involved an evaluation of public entities followed by a report with proposed scenarios and was submitted to the Government Council of Reform (GCR) for the final decision. The first phase of the restructuring was completed in November, 2014 with the implementation of the new organigrams of 16 out of 19 Ministries. In April 2014, the e-Government Strategy 2014-2020 was adopted. According to this strategy, in the next seven years, Greece aims to build a more efficient, transparent and accountable administration, through the use of ICT and the support of the necessary governance and monitoring mechanisms. The respective e-Gov actions are described and further elaborated within the e-Government Action Plan 2014-2020, which was adopted in January, 2015. In February 2016, a new law draft was submitted to Parliament with two main parts: a) evaluation of performance linked to goals setting, b) selection of managers in public administration. The performance evaluation is a main criterion for this selection. The public consultation has been completed and will be introduced to the parliament to be voted.
Provide adequate financial and regulatory means to the office responsible for applying the OECD Better Regulation Principles. The government should participate more actively in the on-going assessment and streamlining of legislation in 13 sectors of the economy to reduce the administrative costs.	By Law 4281/2014, a number of OECD recommendations representing approximately 80% of the administrative burden to be reduced, have been adopted. Nevertheless, some of the adopted recommendations in order for them to be fully operational, need further secondary legislation.
B. Recommendations for financial policy	
Enhance management of troubled assets and maximise recoveries in order to increase banks' ability to grant credit in the medium term.	A comprehensive strategy has been put in place aiming to facilitate the NPL resolution at the end of 2015. Its priorities include a reinforcement of legal and judicial reforms, enhancement of supervision tools and the introduction of third party servicers and purchasers allowing thus the endorsement of best practices to increase recovery rate and NPLs management speed.
Proceed with the planned evaluation of the insolvency framework for the business sector, with a view to lifting the obstacles that hinder effective debt resolution of firms.	Improvements in corporate insolvency regulations are either completed or under process regarding early stage, out-of-court and court procedures with a view to modernizing the law on a more realistic, efficient and fair basis and to provide an adequate legal framework aiming to encourage debt restructuring of the borrowers and to improve judicial system efficiency.

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

Recommendations	Action taken since the previous *Survey*
Target selected social benefits more efficiently and introduce a properly targeted minimum income scheme.	Since November 2015, the Government of Greece is undertaking the Social Welfare Review, with the assistance of the World Bank, to increase the effectiveness and efficiency of the social protection system in Greece. The ultimate objective is to create a more comprehensive welfare system, with a guaranteed minimum income (GMI) scheme at its centre to improve social cohesion in Greece. The Social Welfare Review will examine in depth the effectiveness of the existing system of social assistance. From mid November 2014 to mid May 2016 Greece implemented a pilot GMI scheme. The new Stability Support Programme for Greece provides for a gradual national roll-out to be completed by 2017. Co-financed by the European Social Fund, the pilot has now been completed. The new scheme would offer people a basic income support, complemented by activation measures and coordinated with other support services such as healthcare and housing. This should help to sustain income especially during a downturn and help maintain the link to the labour market. Once roll-out is completed, almost half of the Greek population at risk of poverty is expected to be covered by the GMI (1.2 million people). The GMI programme has an estimated cost of 0.5% of GDP (EUR 1 billion).
Intensify controls on recipients of welfare benefits, especially of disability benefits, by increasing the frequency of re-assessments, as envisaged, and by ensuring effective monitoring and timely data.	No action taken.
Introduce a national programme of subsidised, means-tested school meals.	Law 4331/2015 provides free school meals for pupils suffering from malnutrition. On November 23rd the Greek Government sent a request to the European Commission to explore the eligibility for distribution of prepared meals (soup kitchens) in schools under the FEAD.
Consider over the longer term and the fiscal situation allowing, increasing the duration of unemployment insurance benefits by another year, but tapering the benefits over time.	No action taken.
Harmonise contribution rates to pension and sickness funds.	The contribution rates and the social remuneration of old insured employees of E.T.E.A. (until 31/12/1992) were harmonised with those of the new insured employees (since 1/1/1993) by Law 4225/2014.
E. Recommendations for health care services	
To the extent it is fiscally possible, continue to extend measures to ensure health care access for unprotected and vulnerable groups until the economy improves.	Ensuring universal coverage and universal access to health care services and goods was set as an explicit objective of the health reforms under the first and the second economic adjustment programmes. In 2014, the institutions made it a prior action that a set of short- and medium-term policies would be implemented to ensure universal coverage of all residents and Greek citizens, extending coverage to the uninsured and low income groups and ensuring their access to pharmaceuticals, diagnostics and hospital inpatient care. As a result a number of policies were implemented. Amongst these, in 2014, universal access to healthcare was established through the following legislation: Law 4238/2014 (February 17.02.2014) on primary care and diagnostics, supported by two implementation Joint Ministerial Decrees (F :1456/B/5.6.2014 and 1753/ /28.6.2014). As part of the Primary Health Care legislation, all Greek citizens are given the right to primary care, including diagnostic tests. Importantly, the uninsured are granted free access to hospital care in the network of NHS (ESY) public health care facilities and to pharmaceutical care.
Monitor closely the health impact of the crisis on the population and, if required, take further actions to protect public health.	In line with the Memorandum of Understanding with the Institutions, promoting and supporting the roll out of the new Primary Health Care system as envisaged in the relevant legislation (Law 4238/2014), the Government is focusing on public health (establishment of National Public Health Board in progress) and primary care to offset the impact of recession. Further,work on secondary prevention (screening) programmes for chronic diseases and the continuous health monitoring of approximately 1.35 million immigrants and refugees that entered the country is currently in progress.

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

Recommendations	Action taken since the previous *Survey*
G. Recommendations for strengthening growth	
Recommendations to improve the functioning of the public sector	
Rapidly solve the problem of recruitment of qualified staff and modernisation of working methods of the tax administration. Better link and crosscheck information concerning taxpayers' bank accounts, wealth and status with respect to social security contributions.	Nearly 400 new highly qualified employees took office since August 2013 and 500 more new employees are expected to take office by the end of 2016. A new payroll system, that gives motivation to highly qualified employees, is expected to be in force by January 2016. So far, the GSPR still applies the recruitment procedure through ASEP - which is in force to the entire public sector in Greece. GSPR has developed a System of Bank Account and Payment Account Registries, which currently gives information for the existence, balances and movements of bank accounts in Greece that can be consulted by authorized public sector entities. In the near future it will also provide information on loans. The ENFIA application will be utilized for the development of an Assets Registry. With reference to exchange of information for tax purposes, Greece signed, in October 2014, the Multilateral Competent Authority Agreement to implement the OECD Standard for Automatic Exchange of Financial Information in Tax Matters and has committed to start exchanging information as an Early Adopter by September 2017.
Over the medium term, consider ending the generalised practice of lifetime employment guarantees for civil servants.	No action taken.
Target medical spending cuts. Further promote use of generics and cut excessive hospital administration costs. The rule imposing the replacement of only one in every five retiring civil servants should be relaxed in the case of nurses. If needed, the negative budget consequence can be offset by imposing a more stringent replacement rule for retiring doctors, given their high number.	No action taken.
Empower the General Secretariat responsible for steering the reforms within the Prime Minister's office, with adequate resources to arbitrate, co-ordinate and supervise implementation of the reforms.	No action taken
Improve data collection and dissemination to better monitor implementation and outcomes of structural reforms.	No action taken.
Recommendations to improve functioning of product markets	
Plan an assessment of the recent Hellenic Competition Commission's reform over the next two-to-three years to check if HCC's capacity for determining its case priorities is working.	No action taken.
Further promote competition in the retail sector, taking into consideration the forthcoming OECD proposals, after the completion of the detailed review of this sector using the OECD's Competition Toolkit. Encourage the development of discounters, by facilitating the establishment of new points-of-sale with a less restrictive licensing procedure. Encourage comparative advertising, by reviewing and ensuring that the criteria imposed for its development are not too restrictive.	Regarding OECD proposed actions on retail trade as described in the relevant Competition assessment the following have been done: Sunday trading: 1. A) all retail shops have the option to open for seven Sundays in the year from 11:00 until 20:00; B) the deputy prefect defines the areas within the prefecture in which the retail stores can optionally operate on additional Sundays within three months of the law being passed; and C) the law applies to the following types of stores: i) retail stores with a maximum surface of 250 m2, ii) retail stores that are not chain stores (franchise stores are excluded from this restriction), iii) retail stores that are not shops-in-shops and are not located in outlets, malls or outlet villages. 2. A JMD has defined 3 touristic areas that stores can be open all Sundays (pilot).
	Promotions, seasonal sales & discounts; Street markets-outdoor trade; Fuel trade: All recommendations have been adopted. OTCs: Baby milk, vitamins and food supplements are already able to be sold outside pharmacies; soon this will apply to more OTCs. Pharmacies: a) Recommendations regarding minimum distance and trading hours have been adopted. b) provisions on ownership of pharmacy only by pharmacist have been lifted as well as provisions concerning partnerships between pharmacists. Books: A fixed retail price only applies to the 1st publication of literature books, with a 2-year time limit. Retail licensing: A) 3 JMDs have been issued on simplification of establishing 25 main types of operation of retail outlets. B) Another JMD has been issued on simplification of establishing operations of sanitary interest.

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

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

Thematic chapters

Chapter 1

Structural reforms to boost inclusive growth

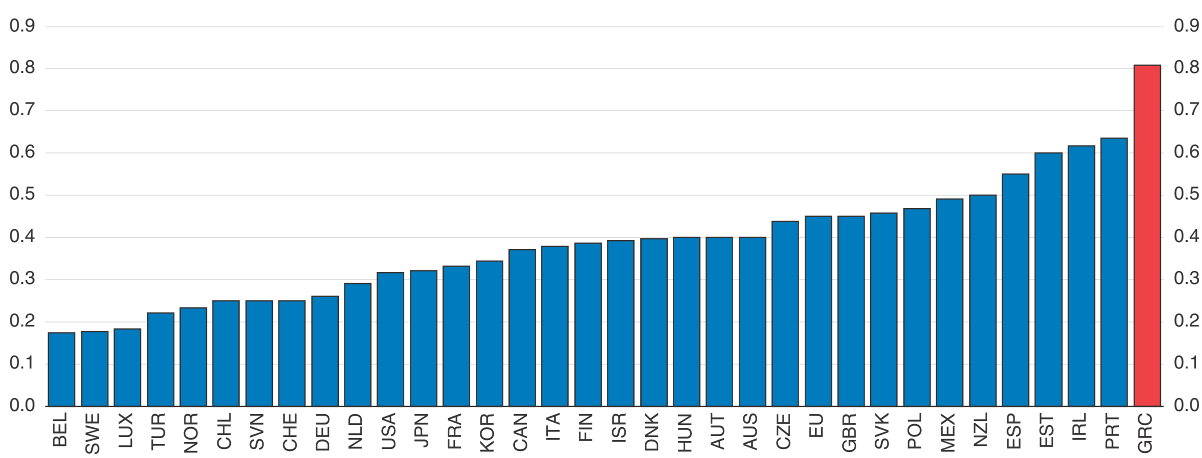
This chapter takes stock of the main structural reforms that Greece has undertaken since 2010, those currently proposed and that are in the process of implementation, and quantifies the medium and long-term effects on output. Special attention is given to three issues that are relevant to understanding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

Greece has undertaken important reforms but progress has been uneven

Since 2010 Greece has embarked on a series of structural reforms to deal with its fiscal challenges and loss of competitiveness. The reform effort has been one of the strongest among OECD countries (Figure 1.1). Tax policy changes and expenditure cuts, particularly in pensions and the public wage bill, reduced the structural fiscal deficit by almost 14 percentage points of GDP. The size of the adjustment was around twice that of other European countries that faced sudden stops of market access. Furthermore, Greece also implemented important reforms in the labour market by decentralising the wage bargaining system, reducing the minimum wage and differentiating it for young workers and easing hiring and firing restrictions. Reforms to reduce the regulatory burden and improve the business climate were initiated in the 2012 adjustment programme, which was much later than for example with the Portuguese programme (Terzi, 2015). The reforms included reducing barriers to competition in tourism, retail, building materials, and food processing; facilitating the business licensing process in some sectors and partial opening up of restricted professions.

Figure 1.1. **Greece has undertaken many reforms in recent years**

Reform Responsiveness Rate (average for 2011-14)[1]



1. The reform responsiveness rate indicator is based on a scoring system in which recommendations set in the 2011 and 2013 issue of Going for Growth take a value of one if "significant" action is taken and zero if not. See . in OECD (2015b) for more details.

Source: OECD (2015), *Economic Policy Reforms Going for Growth.*

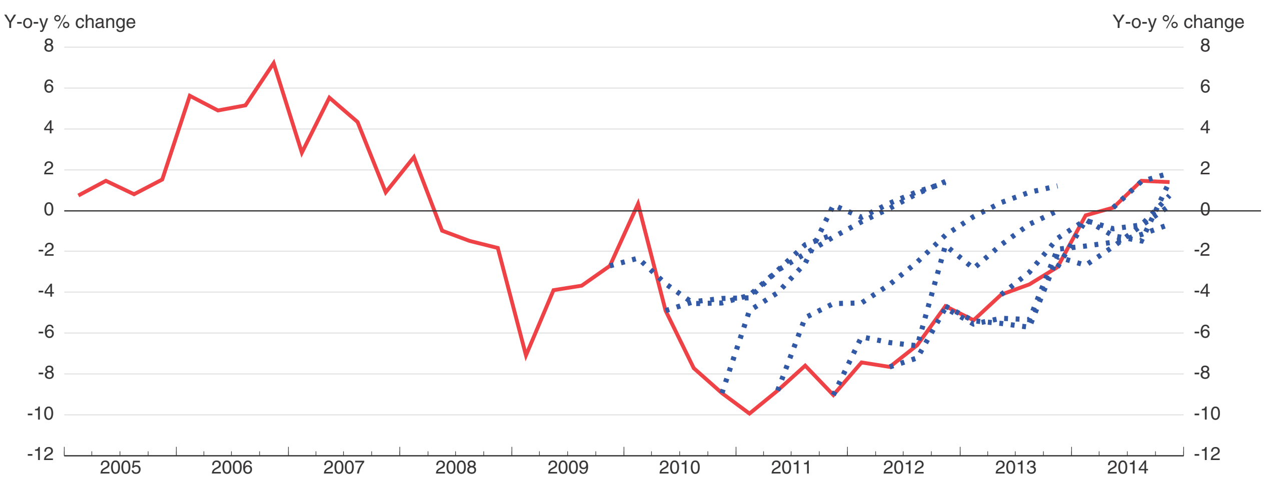
StatLink http://dx.doi.org/10.1787/888933337149

The past reform mix has been unbalanced

The focus on frontloaded fiscal and wage adjustments drastically reduced demand and contributed to the deep recession, as lack of product market reforms kept resources in uncompetitive activities instead of creating incentives for moving towards more efficient or new ones. The impact of fiscal multipliers in a deep recession on activity and the rise in sovereign spreads and borrowing costs were also underestimated (Blanchard and Leigh, 2013; Lewis and Pain, 2014; Figure 1.2). Uncertainty and delays surrounding public debt restructuring further held back investment. In the absence of strong external demand, the collapse in domestic demand overshot the necessary adjustment. The new fiscal targets agreed with the institutions imply a slower pace of fiscal consolidation. Furthermore, overall the adjustment needed is also smaller. This means that fiscal policy, although it will remain tight, will have less negative effects on economic growth. Large tightening of discretionary fiscal policy in the event of a major external shock could harm the fragile recovery.

Figure 1.2. **The depth of the recession was initially underestimated**

Real GDP growth trajectory and forecasts for different vintages



Source: OECD Economic Outlook 87 to 98 databases.

StatLink http://dx.doi.org/10.1787/888933337155

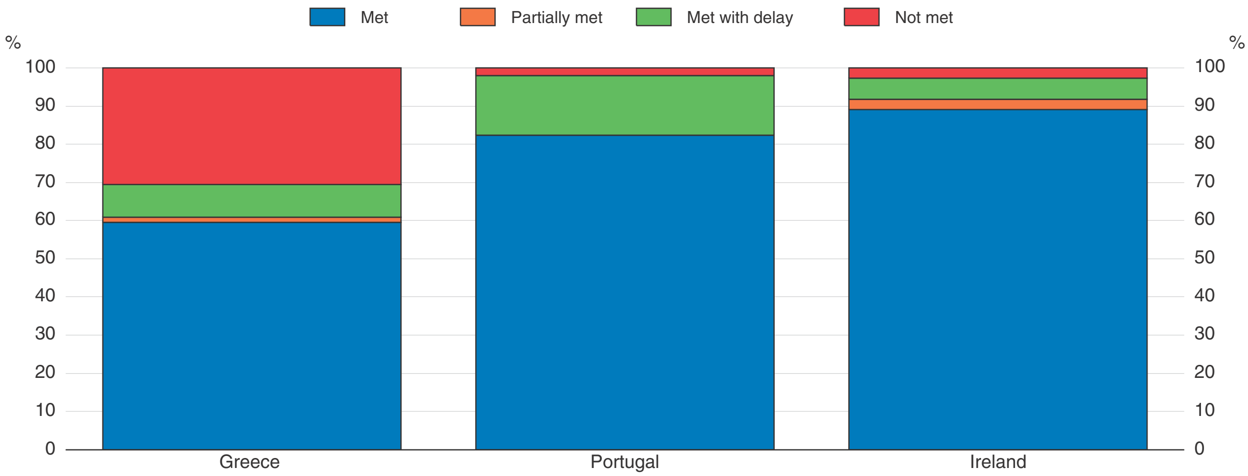
The implementation of reforms has been a challenge

The modest progress with product market reforms was due to the fact that conditionality in the first adjustment programme in 2010 was initially tied more to fiscal and labour market reforms. This implied that the incentives to advance on product market reforms were low (Terzi, 2015). The relatively weak implementation of (product market) reforms in Greece is apparent when looking at the fraction of prior actions and structural benchmarks met compared to Ireland and Portugal, which underwent a similar, although less severe, adjustment process. For example, while Portugal met over 80% of the targets on time and ended up not implementing just around 2% of them, Greece just met around 60% of its targets on time and almost one third were not met or only partially met (Figure 1.3).

The delay in reform implementation in the second programme of 2012 was also mainly in product markets, public administration and the regulatory environment. For example, while all labour market reform targets were met, only 30% of the targets linked to private sector legal and regulatory reforms were met. Of course, this analysis has some limitations, because the economic significance of the different targets and the complexity of implementation differ. The areas of underperformance in the second programme included comprehensive issues such as investment licensing, improving bankruptcy

Figure 1.3. **Reform implementation has been weaker in Greece than in other EU countries**

Conditions or benchmarks of IMF loan programme



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

Source: OECD calculations based on IMF MONA database.

StatLink http://dx.doi.org/10.1787/888933337008

procedures and raising the effectiveness of the judiciary, as well as opening up restricted professions and eliminating widespread nuisance taxes and third-party levies. Several of these reforms passed only in 2015 and are currently being implemented.

An important share of the product market reforms undertaken under the second adjustment programme were based on the OECD's Competition Assessment Review carried out with the national competition commission (HCC) and the Greek government in 2013. It focused on barriers to competition in food processing, retail trade, building materials and tourism, which represent around one fifth of GDP and slightly less than a third of total employment. In addition, some horizontal restrictions such as advertising taxes, transport, licensing and urban planning restrictions were also detected, but only partially removed. Although it is difficult to assess the impact of lifting these restrictions, OECD estimates show sizeable effects through higher turnover and lower prices for consumers of these reforms (Box 1.1). At the end of 2014, the IMF estimated that around 72% of the recommendations of the first competition assessment were implemented (IMF, 2014). Furthermore, several of the recommendations that were not implemented or only partially implemented were those with the largest estimated economic impact, such as Sunday trading or eliminating advertising fees (Box 1.1).

Weak and fragmented implementation has made reforms less effective

Lack of full implementation of product market reforms has often implied that substantive changes in policies have had little economic impact, but potentially high political costs. For example, truck licensing has historically been among the most restrictive in the OECD. From the mid-1970s no licenses had been issued, such that the only way to obtain a license was by buying it in the secondary market at high prices (Katsoulacos, et al., 2015). Despite strikes and strong resistance a deregulation process started in 2010. Law 3887/2010 and subsequent laws (4038/2012 and 4093/2012) further liberalised a significant part of the truck licensing process. However, few new licenses have

Box 1.1. **The OECD Competition Assessment Reviews of Greece**

Competition assessment is a powerful tool to help policy makers improve the workings of the economy by identifying and lifting regulations that restrict competition in product markets, service and network sectors, and rules governing public tenders. The OECD's "Competition Assessment Toolkit" supports government efforts to improve regulatory impact assessment to eliminate barriers to competition. It provides a straightforward method for identifying unnecessary regulatory restraints on market activities and developing alternative, less restrictive measures that still achieve government policy objectives. One of the main elements of the Competition Assessments is a "Competition Checklist" that asks a series of simple questions to screen laws and regulations that have the potential to unnecessarily restrain competition, which helps focus limited government resources on the areas where competition assessment is most needed. The assessment is designed for use by government officials that draft and review regulation, whether at national or sub-national level. It is not particularly addressed to competition experts. The reason for designing the materials with this flexibility is that restrictions on competition can be implemented at many different levels of government and competition assessment can be helpful at all these levels.

In 2013 and 2014, the OECD, in collaboration with the Hellenic Competition Commission (HCC), carried out a project to identify and assess anti-competitive regulation and legislation, based on the OECD's Competition Assessment methodology. The findings were used to pinpoint the necessary measures to lift these restrictions to stimulate the emergence of a more competitive environment for Greek and foreign businesses to operate in. The project's central aim was to improve competition in the sectors of the Greek economy under scrutiny. In 2013, four sectors were analysed: food processing, retail trade, building materials and tourism. These sectors had a combined turnover of EUR 44 billion in 2011, equivalent to 21% of GDP, and represented almost 1.5 million jobs or 26% of total employment in Greece in 2011. Lifting the restrictions to competition in these sectors is likely to have a significant positive economic impact, both short term and long term. The OECD identified 555 regulatory restrictions and made 329 individual recommendations on specific legal provisions that should be amended or repealed. Overall, the 2013 OECD study found, a total of EUR 5.2 billion (2.5 of GDP) in economic benefits from lifting the 329 restrictions identified (Table 1.1).

Table 1.1. **Estimated benefits from lifting the specific regulations**

Issue	Annual Benefit Millions of EUR	Number of provisions affected	Value to economy, Millions of EUR	Implementation
Fresh milk	33 (consumer benefit/year)	2	33	Partially implemented
Levy on flour	8-11 (value of levy/year)	1	8	Implemented
Sunday trading	2 500 (annual expenditure), plus 30.000 new jobs	3	2 500	Not implemented
Sales and discounts	740 (annual turnover)	9	740	Implemented
Over the Counter pharmaceuticals	102 (consumer benefit/year)	23	102	Partially implemented
Marinas	2.3 (annual turnover)	10	2	Implemented
Cruise business	65 (annual turnover)	4	65	Implemented
Advertising	1 800 (consumer benefit/year)	14	1 800	Not implemented

Source: OECD (2014a), OECD Competition Assessment Reviews GREECE.

Box 1.1. **The OECD Competition Assessment Reviews of Greece** *(cont.)*

During 2014, a second review of four manufacturing sub-sectors was carried out: beverages; textiles, wearing apparel and leather; machinery and equipment, and coke and refined petroleum products. Out of the 88 OECD recommendations on specific provisions to be amended or abolished, some concerned the implementation of stockholding obligations for petroleum producers, wholesalers and importers. The implementation of these recommendations is part of the new agreement with the institutions. Around 40 recommendations of this second assessment have been implemented since August 2015.

There is no reason to suppose that these problems are confined to the sectors that have been studied. Indeed, the analysis so far has revealed the existence of overlapping or adjacent regulation that appeared equally important, but was outside the scope of the projects.

been issued. While weak domestic demand and lack of finance is an important factor in explaining the low rate of new entry, other remaining restrictions play a role. The issuance of a permanent license for a truck was tied to the gross profits of the applicant. There were also limits to the number of licenses. These restrictions were already detected in OECD competition assessment in 2013 (OECD, 2014a), but they were only lifted in August 2015. Overall, this implies that product market restrictions were lifted only gradually and that regulations are still among the most restrictive among OECD economies.

In many cases, the effectiveness of reforms has been undermined by lack of a coordinated approach to lifting bottlenecks in related areas. For example, Greece has undertaken important reforms in creating a one-stop shop to deal with licenses to open and register a new business, including a common electronic platform that interconnects several government agencies, a reduction in registration fees and abolishing minimum capital requirements for limited liability firms. This led to a significant reduction in the cost of opening a firm in Greece. For example, while in 2011 it took 15 procedures to open a business and around 20 days, in 2015 only 5 procedures were required and it would take only 13 days (World Bank, 2016). However, procedures and licenses needed to start operating, such as registration of property, dealing with construction permits, getting electricity, and health inspections have only changed marginally. Therefore, despite progress in easing the burden of entry, the regulatory burden for operating a business in Greece continues to be heavy. A more co-ordinated approach to reform would help detecting complementarities across areas of reform. To address this issue, several countries in the OECD have created cross-cutting commissions at the centre of government or agencies to coordinate policy implementation between different ministries and levels of government.

More ownership of the reform agenda is crucial for its long-term success

Implementing a substantial amount of reforms over a short time period, in a context of depressed aggregate demand and with a relatively weak public administration is a challenging task. However, the economic situation is turning, fiscal consolidation needs are more moderate and external conditions are more supportive. The 2015 MoU also includes several actions related to alleviating the social crisis and building institutions for more inclusive growth, mitigating the impact on reforms on affected groups. Fully implementing the reforms agreed with the institutions would allow reaping their benefits faster.

Acceptance of reforms may also be facilitated by tackling more sectors with concentrated economic power. Most sectors in the first OECD Competition Assessment were dominated by SMEs. Several of the current priority sectors for reducing barriers to competition are oligopolistic with influential interest groups. Fighting tax evasion would also not only produce more revenues to balance budgets and boost social expenditure, but improve perceptions of the fairness of reforms. Under these conditions, delivering on the reform programme could boost confidence and allow more front-loading of the benefits of reforms than in the recent past. A positive development is that the government now has a clear mandate to implement the reform agenda, which is generally a precondition for successful implementation (OECD, 2010a). This would also be essential to build political support for more reforms needed to modernise the Greek economy, such as reforming the public administration and the judiciary, which will require a sustained effort and political support over time.

A transparent and clear communication strategy of the expected benefits of reforms to the general public, especially those who would most benefit from them, would help in building support for the reform programme. Particularly in the Greek case, many of the past reforms have been framed as externally imposed, with an emphasis on the short-term costs rather than the medium-term rationale of modernising the Greek economy or the costs of inaction (OECD, 2010a). For example, in the case of removing barriers to competition in a particular sector, communication should shift from emphasising the cost for incumbent firms towards the benefits for the consumer and job creation.

The experience of other OECD countries shows that successful reforms are generally based on a good diagnostic and quantification of these benefits (OECD, 2010a). Therefore, it is important to build more analytical capacity in fields such as tax policy, efficiency of government expenditures and pensions to quantify the growth, employment and distributional effects of policies. Designing policies that are based on an ex-ante evidence-based analysis and include monitoring and evaluation stages in their conception generally improve effectiveness. Moreover, properly designed policies enhance stability as frequent changes in policies create uncertainty for consumers and firms. Some positive steps in this direction are already happening, as shown by the proposed pension reform that goes beyond changing the pension system to achieve fiscal targets under the MoU and aims at reducing broader inequities and inefficiencies in the Greek pension system by abolishing special regimes and introducing a basic pension.

Structural reforms will lift output

The reforms that have been undertaken in recent years and the reforms that the government is currently carrying out, if fully implemented, will raise output beyond levels implied by the cyclical recovery of the economy. OECD estimates show that product and labour market reforms that have been undertaken already, combined with several of the reforms planned within the 2015 MoU, could boost output significantly over the next decade. Coupled with the cyclical recovery this would return Greece to its pre-crisis GDP per capita level. Product market reforms, the pension reform, tax reform and the changes to the legal bankruptcy framework would bring the most significant impact on output (Table 1.2).

These estimates might represent a lower bound as some reforms or aspects of reforms are not quantified, because this cannot be done in the current framework. For example, the quantification of the August 2015 changes in bankruptcy procedures cover the changes in the allocative efficiency and ability to catch up to the technology frontier (Saia, et al., 2015).

Table 1.2. **Estimated impact of major reforms on real GDP over a 10-year horizon**[1]

Reform	GDP	Via Employment growth	Via Productivity growth
	Reforms implemented 2010-14		
Product Market Reforms	**3.4**		**3.4**
Product market reform between 2010-13	2.9		2.9
Product market reform in 2013-14	0.5		0.5
Labour Market Reforms[2]	**0.9**	**0.6**	**0.3**
Employment Protection Legislation reform in 2010-13	0.3		0.3
Pension reform	0.6	0.6	
Tax reform	**1.3**		**1.3**
Total implemented reforms	**5.6**	**0.6**	**5.0**
	Reforms currently being implemented or planned in the MoU		
Product Market reforms	**4.4**		**4.4**
Network industries reform (electricity, gas, rail road and transport)	2.3		2.3
Other product market reforms[3]	2.1		2.1
Labour Market reforms	**2.4**		
Pension reform	2.2	2.2	
Employment protection legislation	0.2		0.2
Tax reform	**0.8**		**0.8**
Bankruptcy reform	**0.2**		**0.2**
Total planned reforms	**7.8**	**2.2**	**5.6**
Total implemented and planned reforms	**13.4**	**2.8**	**10.6**

1. See Annex for the methodology used to estimate the impact of reforms.
2. Reforms to the wage bargaining system are not assessed in this exercise.
3. Includes reforms to reduce administrative burden, opening closed professions, trade facilitation and investment licensing.

Source: OECD calculations.

However, the estimates do not take into account the effects of the reforms on resolving the large non-performing loans in the banking system, which would free resources to more productive activities and enable banks to start extending more credit. Similarly, the implementation of the recommendations of the second OECD Competition Assessment, currently in process, and the potential reduction in restrictions to competition in construction, wholesale or further deregulation of network sectors is not assessed at this stage. Similarly, the employment effects and the potential impact of more efficient reallocation of resources from changing the wage bargaining system or the minimum wage are not assessed, given that the framework used only quantifies changes in the OECD Employment Protection Legislation indicator (see Annex A.1.1). Their effect could potentially be sizeable, as shown by other studies of countries with similar challenges (e.g. see (OECD 2013a) for Spain).

There are some limitations which imply that the estimates are subject to uncertainty. First, the estimates assume that legislated reforms are implemented at the OECD's average quality, which might be optimistic given the delays and problems with reform implementation in the past. Second, they do not take into account short-term interactions with aggregate demand or with reforms in other areas. In particular, this might lead to an overestimation, at least in the short run, of some of the employment growth effects. For example, concerning the pension reform, the estimates implicitly assume that people will chose to work for more years and actually find a job, which might prove difficult. The impact on GDP and employment of some of the main recent reforms are discussed in more detail in Table 1.2.

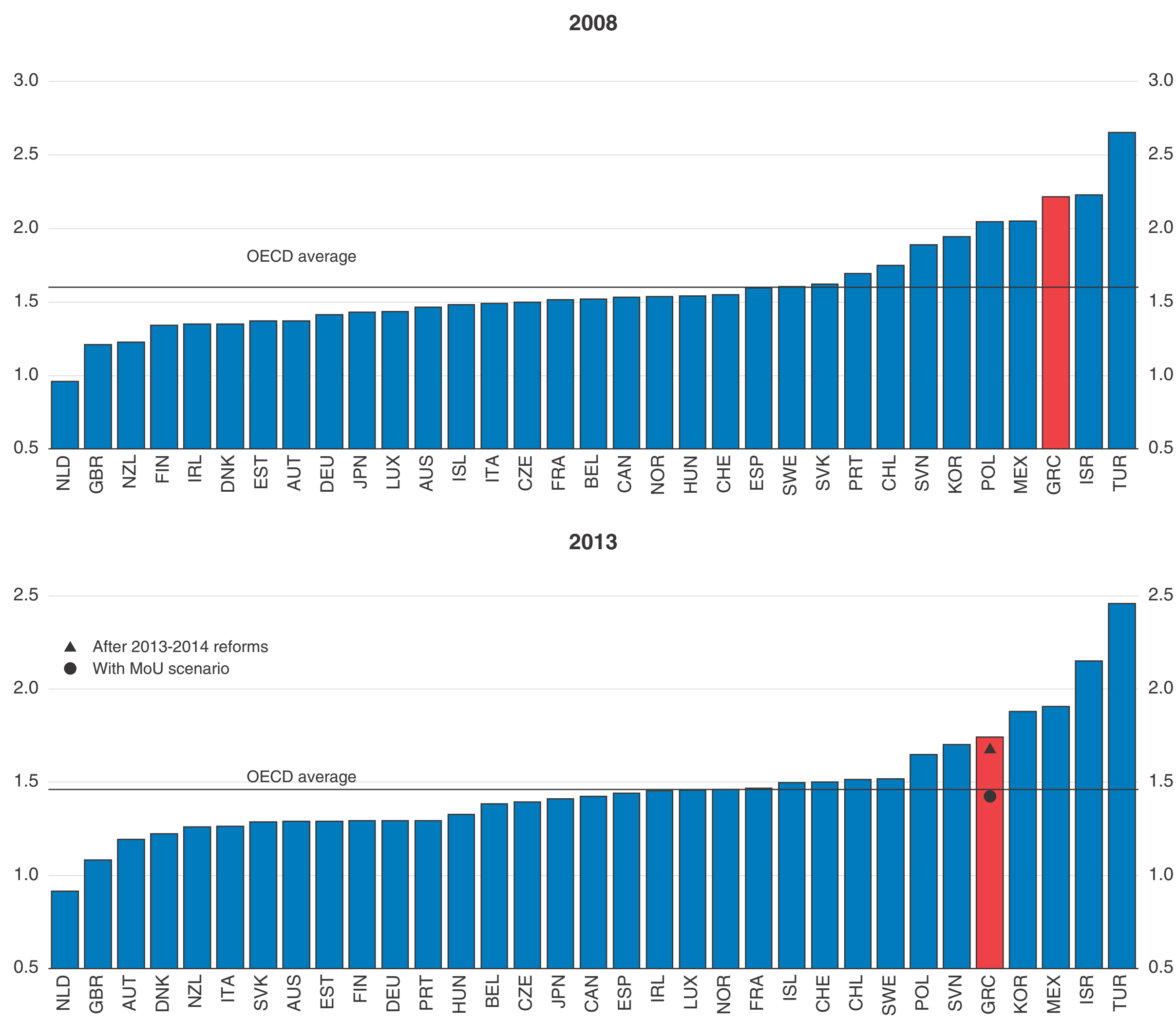
Further reforms especially in product markets are key to stronger and more inclusive growth

Gains from further product market reforms are large

Although reforms so far have moved Greece close the OECD average in restrictiveness of product markets, additional reforms could substantially boost growth further (Figure 1.4). Product market reforms are crucial to increasing productivity and getting investment started again. Sectoral indicators show that there is significant room for improving regulations especially in network sectors. In particular, in rail and road transport, as well as electricity and gas, a combination of public ownership, barriers to entry and a significant vertical integration leads to relatively high costs that undermine the competitiveness of the rest of the economy (Figure 1.5). The gains for firms, in particular in export activities would be substantial for moving closer to OECD best practices. Therefore,

Figure 1.4. **There is room to further ease product market regulation**

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



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

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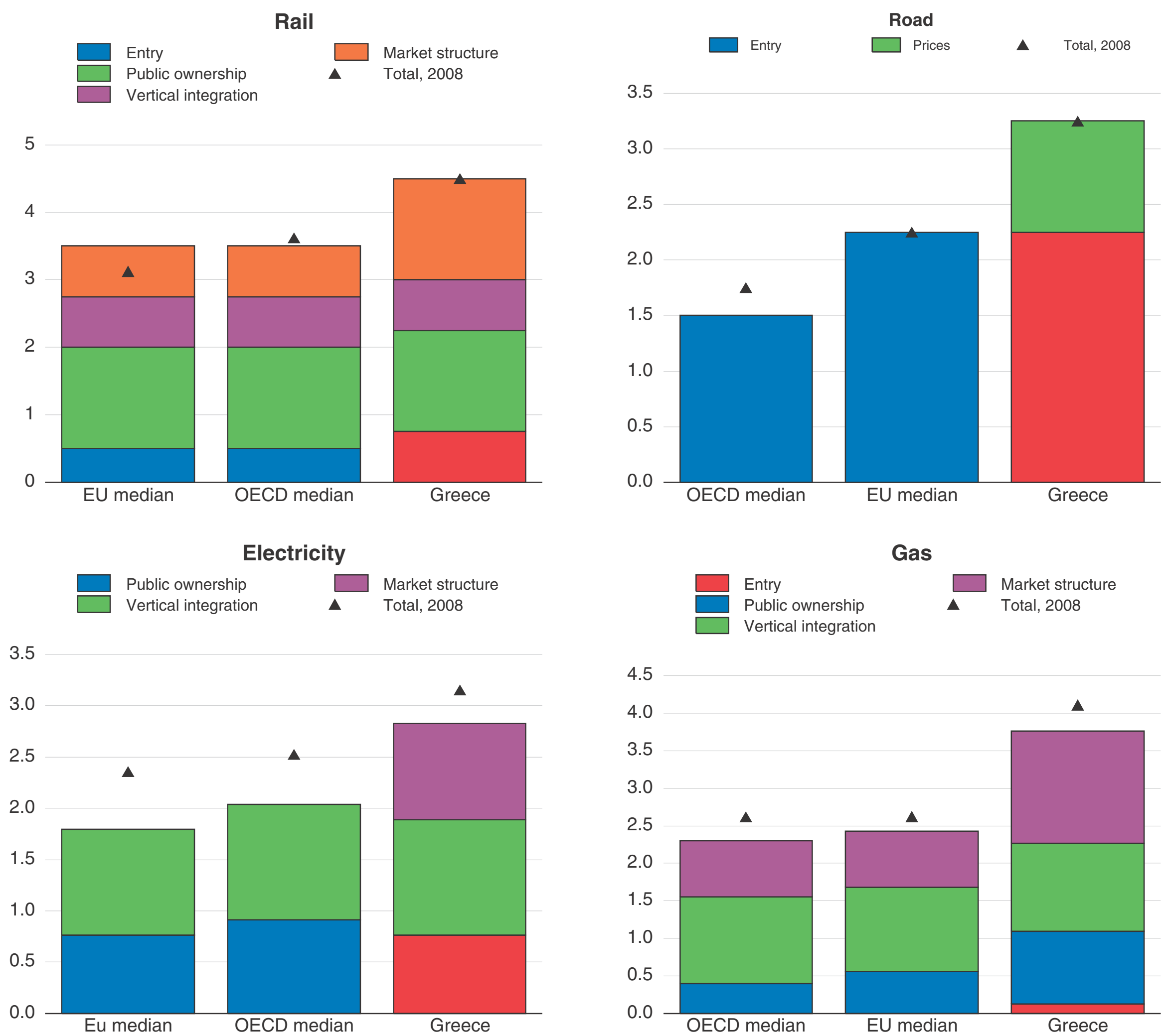
Figure 1.5. **Network sectors are still subject to restrictive regulation in Greece**

Index scale of 0-6 from least to most restrictive, 2013



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

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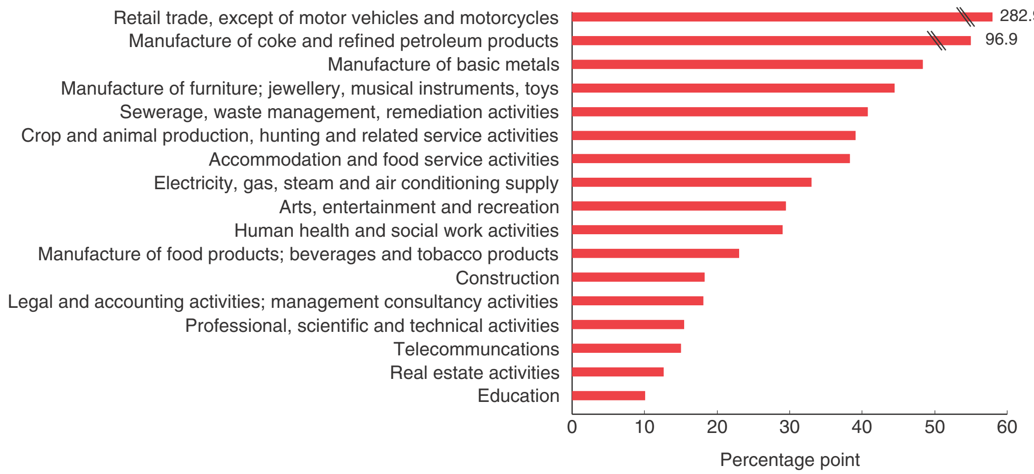
the plans for deregulation and privatisations in these sectors should be a priority. Bringing regulation in line with the OECD average, which would be the outcome if the 2015 MoU actions on network sectors are fully implemented, would raise output by more than 2 percentage points in the next decade.

A number of other sectors with high profit margins compared to the EU average could also be targeted. Many of these sectors, especially those with the highest profit margins, have been part of the competition assessments carried out with the OECD in the recent past (Figure 1.6). Other sectors included in the 2015 MoU, such as construction and remaining manufacturing activities also appear with profit margins above the EU average. Some of these sectors might present a higher profit margin because of the prevalence of small enterprises, such that the remunerations of the owners of SMEs are part of profits. However, the differences in many sectors remain large when compared to countries with

Figure 1.6. **Profit margins in several sectors remain high**

Difference with respect to the EU average in net profit margins



Note: The difference is based on a 2012-14 average. Only sectors whose value added represents at least 1% of total value added are considered. In Greece, the large share of self-employed can bias the profit a numbers as they may include other remuneration.
Source: OECD calculations based on Eurostat data.

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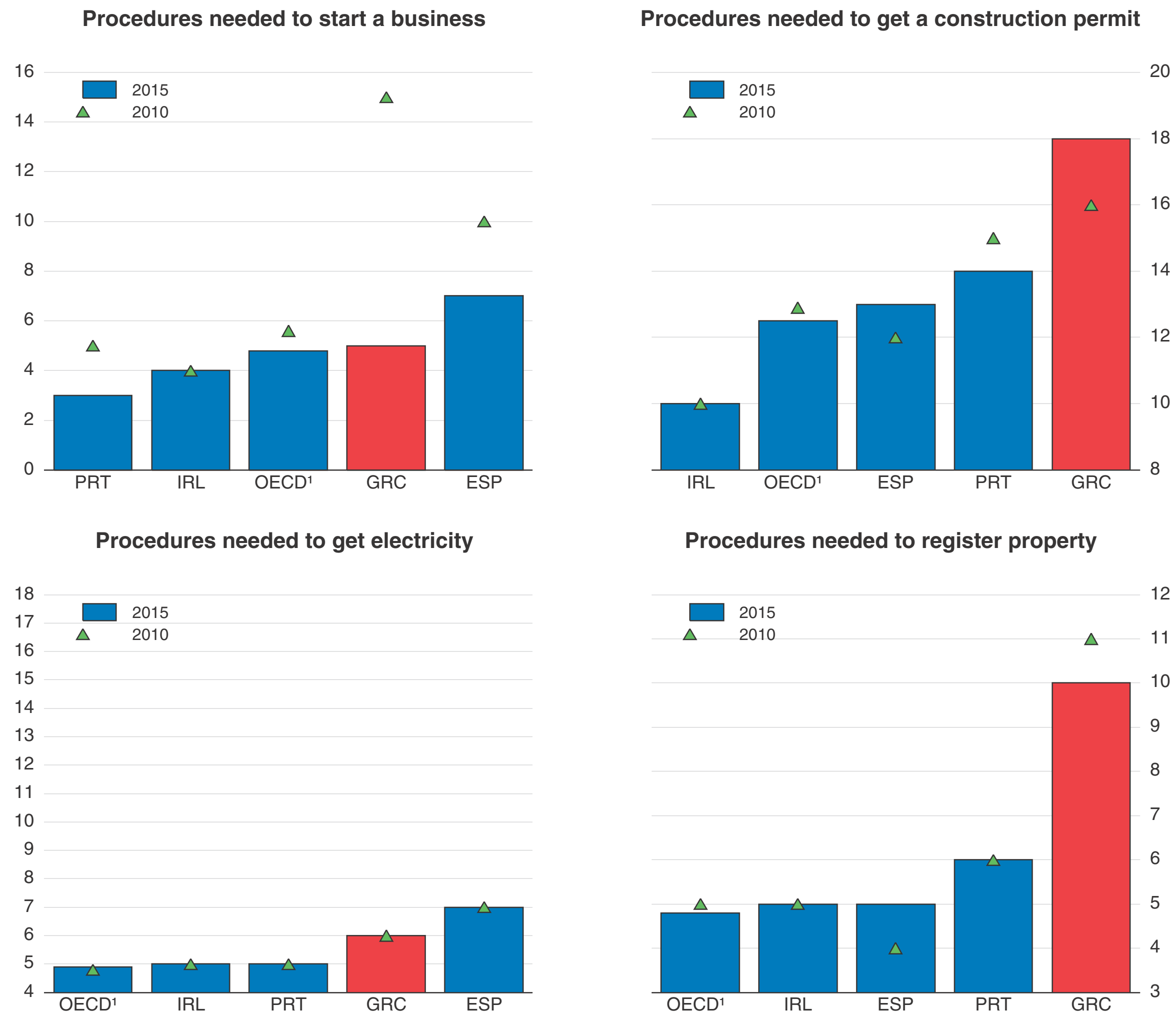
similar levels of self-employment. Specific barriers to competition will be examined in 2016 jointly with the technical assistance of the OECD. Therefore, while reforms in these sectors could contribute to productivity growth, they cannot be quantified currently as it is not clear what part of the profit margins are due to barriers to competition and how these could be removed.

Regulatory burden remains a barrier to private investment

Greece has undertaken efforts to reduce the costs of doing business, but results so far are limited, as discussed above. Licensing procedures and regulations to operate a business continue to be relatively burdensome. In the areas of getting a construction permit or registering property, which are important for investments – for example in retail, tourism and logistics – Greece continues to perform badly, despite some limited reform to accelerate the decision process at the local-government level (Figure 1.7).

The proper implementation of the one-stop shop for dealing with all licenses and permits for operating a business and of the 2012 Law on Better Regulation would allow a more systemic approach to reducing administrative burden (see Box 1.2). Several sectorial studies have detected regulations that raise the cost of doing business or create barriers to entry (OECD, 2014b). However, instead of relying on ad hoc assessment, a more systematic use of regulatory impact assessments (RIA) would help identify the effects of regulation on business and citizens before they are implemented. In particular, for secondary legislation and regulations and ex-post RIA, the gap in using these instruments is significant (Figure 1.8). In several OECD countries, the effectiveness of RIA has been increased by introducing complementary rules. For example, sunset clauses to regulations that provide for the automatic review or expiry of laws or rules like in the United Kingdom's "one-in, two-out" that create incentives to internalise and evaluate the cost of introducing new regulations.

Figure 1.7. **Regulations to open a business have eased, but other regulatory barriers remain high**



1. OECD is a simple average of all OECD countries data except the United States.
Source: World Bank (2015a), *Doing Business database*.

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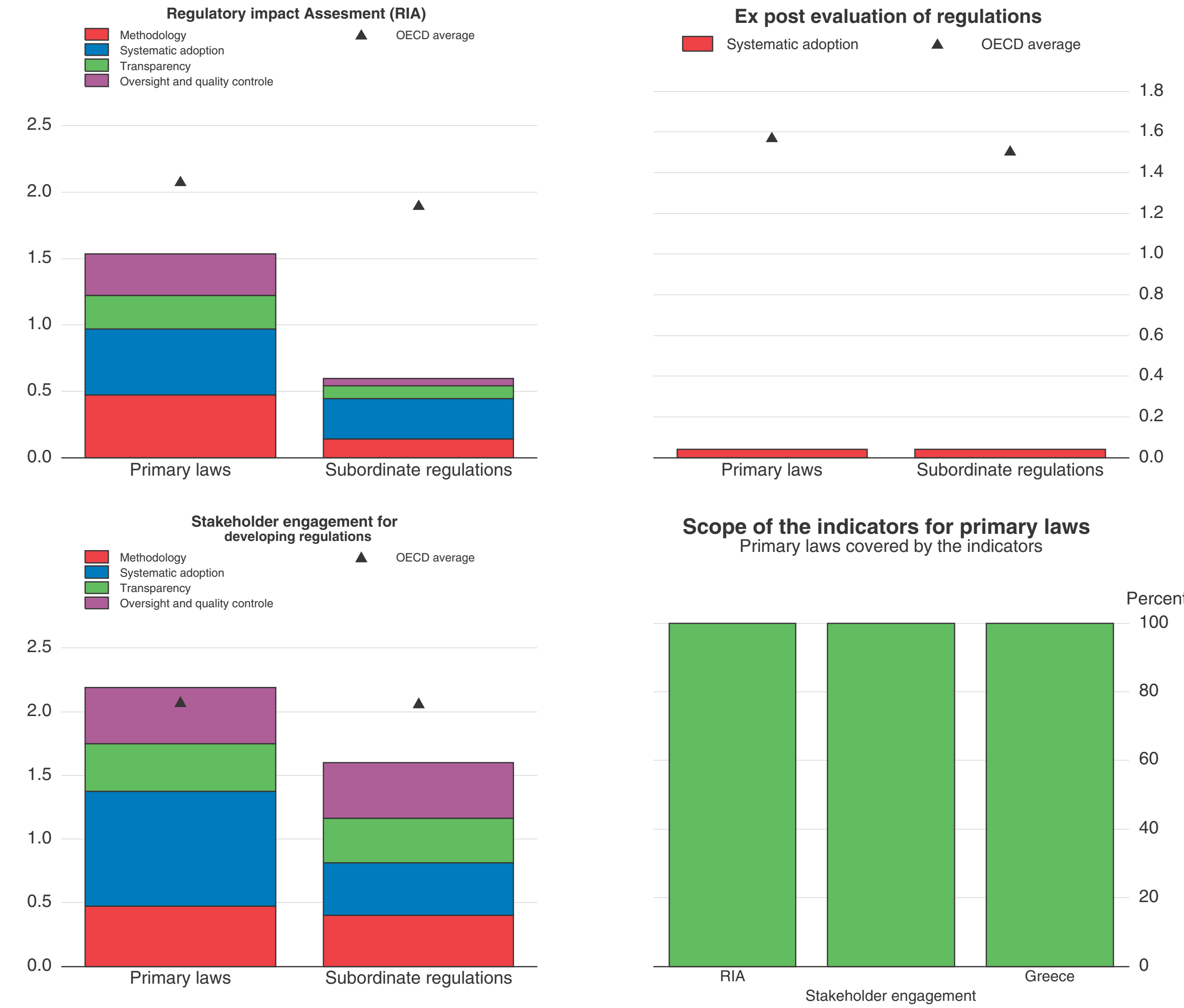
Box 1.2. **The 2012 Law on Better Regulation**

The law on Better Regulation adopted in February 2012 states the principles of Better Regulation including: necessity; proportionality; effectiveness and efficiency of the regulation; transparency; accessibility and the avoidance of controversial regulations, and mandates the regulator to comply with these principles. In addition to ex ante RIA for every legislative draft or amendment to existing regulations, it requires an ex post impact assessment of the regulation's cost, benefit and impacts. This must take place after three years and no later than five years after implementation. It also defines steps and deadlines of public consultation procedures for new legislation, describes procedures for the transposition of the EU law and reinforces the institutional framework for regulatory policy through the establishment of the Office for the Support of Better Regulation in the General Secretariat of the government.

Source: OECD (2015b), *Regulatory Policy Outlook 2015*.

Figure 1.8. **The use of regulatory impact assessments and evaluations could be expanded and improved**



1. The figures display the aggregated scores from all four categories giving the total composite score for each indicator. The maximum score for each category is one and the maximum score for each aggregated indicator is four.
2. Although members of parliament can initiate primary laws in theory in Greece, in practice all primary laws are initiated by the executive. Hence, the information presented in the indicators for primary laws on RIA, stakeholder engagement and ex post evaluation covers processes in place for all national primary laws in Greece.

Source: OECD (2014), Regulatory Indicators Survey results, *www.oecd.org/gov/regulatory-policy/measuring-regulatory-performance.htm.*

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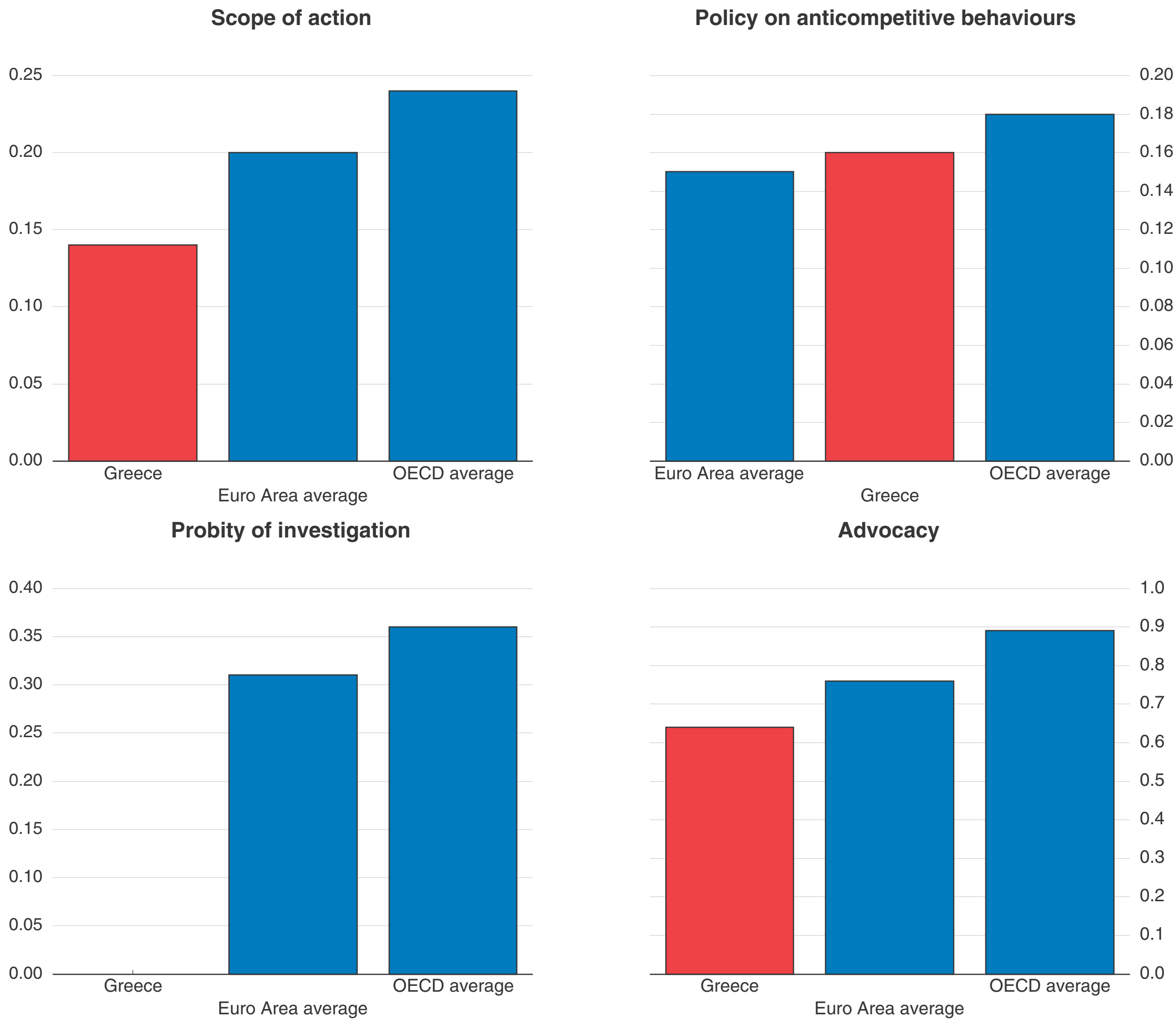
Improvements to competition policy would help eliminate existing barriers to competition

Recent changes in the legal framework of competition policy and the HCC have brought the legal framework close to OECD best practices (Figure 1.9). European competition law applies, complemented in 2012 by a domestic competition law which has strengthened the legal framework by giving new powers and greater independence to the HCC and creating stronger penalties. The HCC itself has been reformed and has vigorously enforced the law. It now has the ability to assess and object to new legislation that might be anti-competitive and it has been closely involved in reform, either working alone (e.g. on

Figure 1.9. **Competition law and policy in Greece is relatively strong**

Index from 0 to 6, from most to least conducive to competition



Source: Alemani, E., et al. (2013), "New Indicators of Competition Law and Policy in 2013 for OECD and non-OECD Countries", *OECD Economics Department Working Papers*, No. 1104, OECD publishing, Paris, *http://dx.doi.org/10.1787/5k3ttg4r657h-en*.

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liberalisation of professional services), or with the OECD (e.g. on retail and manufacturing). A clear policy based on a point system for case prioritisation has been instrumental to focus the HCC's efforts on more relevant cases.

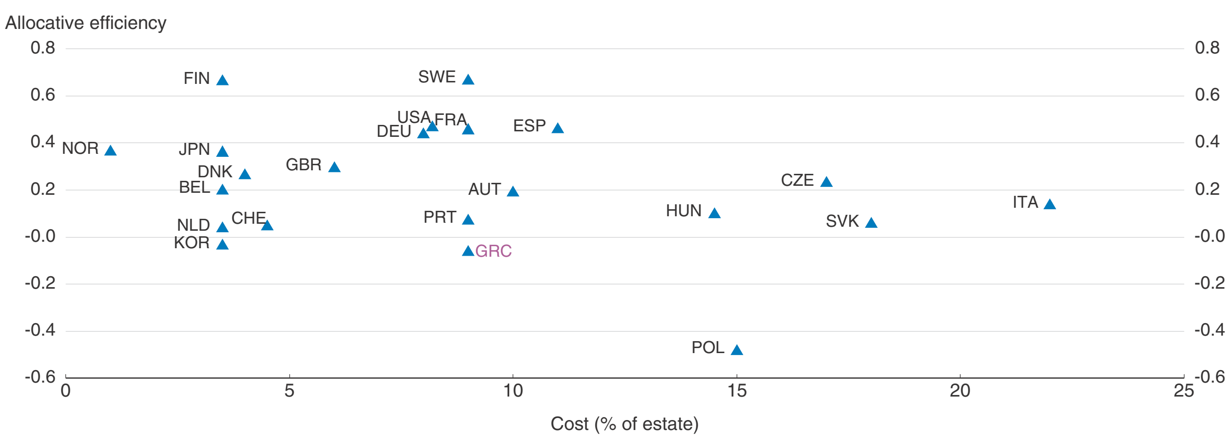
More resources for advocacy work would help the HCC to expand its work outside the area of law enforcement. There is room for moving closer to best practices by working more on market studies to assess regulations or planned legislation that are barriers to competition (Figure 1.9). The plan included in the 2015 MoU of increasing the HCC's advocacy unit by twelve additional staff posts is welcome in this regard. As shown by the two OECD competition assessments, there are many obstructions to competition in the Greek economy. Restrictions have often been designed to achieve an understandable purpose (e.g. preventing evasion of excise duties), but generally introduced without assessment of the costs of restricting competition and consequently have anti-competitive effects. Greece does not need large changes in its legal regulatory framework, but rather an improvement in its ability to eliminate unnecessary restrictions on competition.

Greece would also profit from strengthening the judicial process related to competition by creating specialised appeal courts and training judges. Currently decisions tend to be taken on a formalistic assessment rather than the impact on social welfare, which often leads to decisions that reduce consumer welfare (Katsoulacos et al., 2015). In this regard, including economists or judges with specific training in economics and competition in the bodies dealing with competition cases can be useful.

More efficient bankruptcy procedures will help boost productivity

Bankruptcy regulation is key for the reallocation of resources in the economy. While regulatory burden and barriers to competition mainly affect productivity by reducing entry of new firms, high costs and burdensome regulations to resolve corporate bankruptcy leads to lowering the exit of non-profitable firms. This reduces productivity by keeping labour and capital locked into low productivity firms (Figure 1.10). It also reduces the speed at which the economy absorbs technological progress at the frontier (Saia et al., 2015). Greece has historically underperformed in all relevant dimensions of an efficient bankruptcy regulation: costs, time involved in the procedures and the outcome in terms of the recovery rates, despite important changes in bankruptcy regulation in 2007 and some improvements in recent times, such as the elimination of a cumbersome conciliation procedure in 2013 (Figure 1.11).

Figure 1.10. **High costs of closing a business lead to lower efficiency in the allocation of resources**



Note: As in Bartelsman et al., (2008), the index of allocative efficiency is a measure of the correspondence between firm size and labour productivity, which is computed for a large number of countries and industries. For more info see Andrews and Cingano (2014).
Source: World Bank, *Doing Business database*; Andrews, D. and F. Cingano(2014), Public Policy and Resource Allocation: Evidence from Firms in OECD Countries (April 2014). Economic Policy, Vol. 29, Issue 78, pp. 253-296, 2014.

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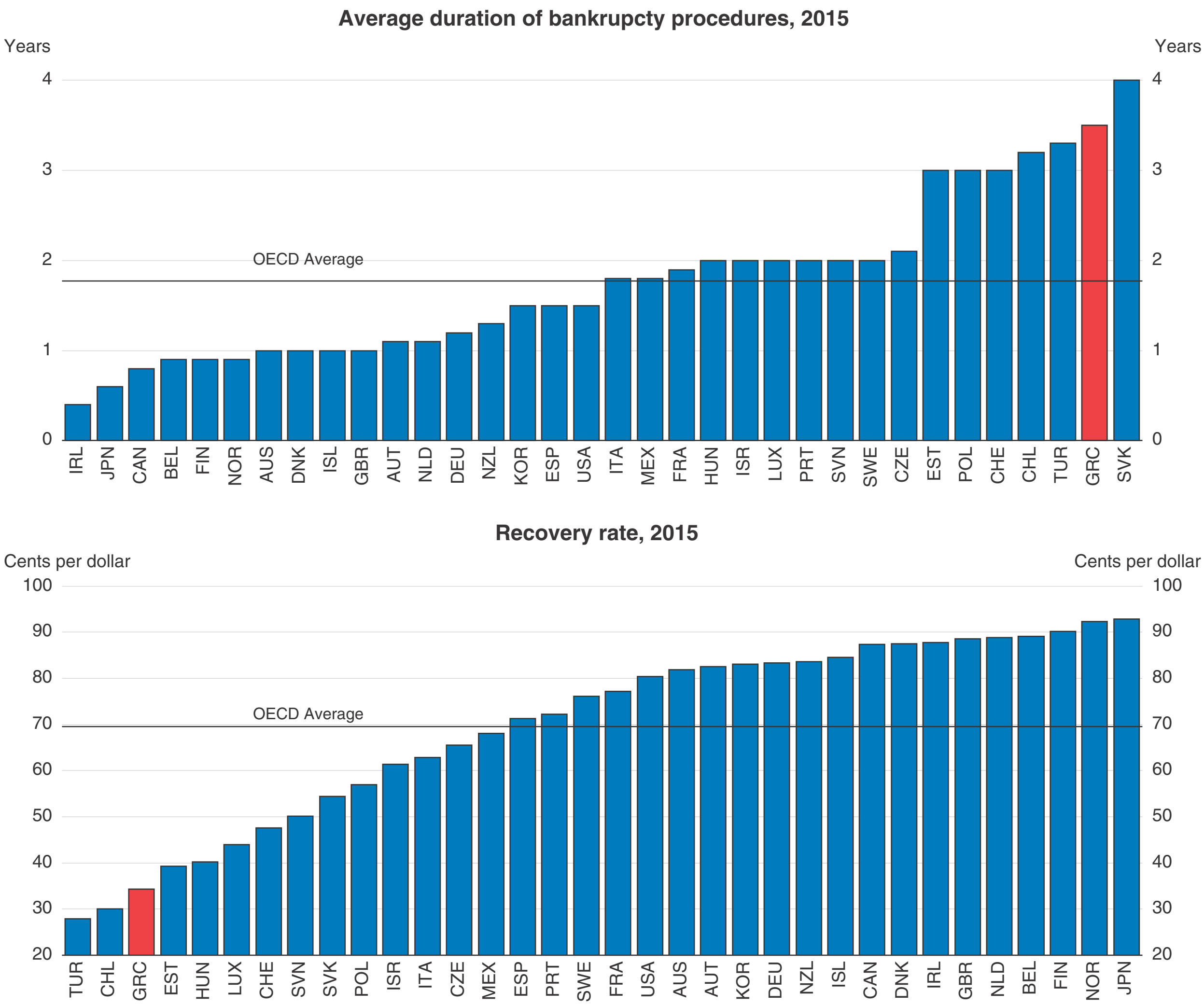
Changes to the Bankruptcy Code introduced in August 2015 (Law 4336/2015) will improve the efficiency of bankruptcy procedures. Among several changes, two stand out. First, the new law increases the creditor rights of banks vis-à-vis the Greek state. This creates incentives for banks and creditors in general to use legal procedures to take debtors to bankruptcy courts and/or liquidate assets that are non-performing. In the past, the

Figure 1.11. **Bankruptcy procedures in Greece are time consuming and recovery rates are low**



Source: World Bank (2015), *Doing Business database*.

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public sector had a more privileged creditor position regarding unpaid VAT and other taxes (including fees and sanctions) and social security claims compared to other creditors, in particular banks. Combined with a long and uncertain judicial procedure during which debtors could still get legal protection enabling them to potentially divert all remaining valuable assets, incentives to proceed with bankruptcy by creditors were low. This was reflected by the long periods required to resolve bankruptcy cases and the low recovery rates (Figure 1.11). Second, important deadlines have been shortened, such as the notice period of creditors, the period for claim confirmations, the time to raise objections to the bankruptcy court, as well as the period this court has to issue a ruling on these objections. The changes introduced in August 2015 will allow for more efficient exit, separating inviable firms from those financially distressed but viable, and help boost productivity.

The estimated impact of the reform on GDP is around 0.2 percentage points in the next decade from catching up to the technological frontier and spill-over effects. However, this estimate does not fully take into account the effects on the efficiency in the allocation of resources, which could be sizeable. For example, a 'back of the envelope' calculation based on the correlation between allocative efficiency and the cost of bankruptcy (based on Figure 1.4) yields an increase by 4 percentage points in aggregate productivity (and output) for a given distribution of firms of these changes.

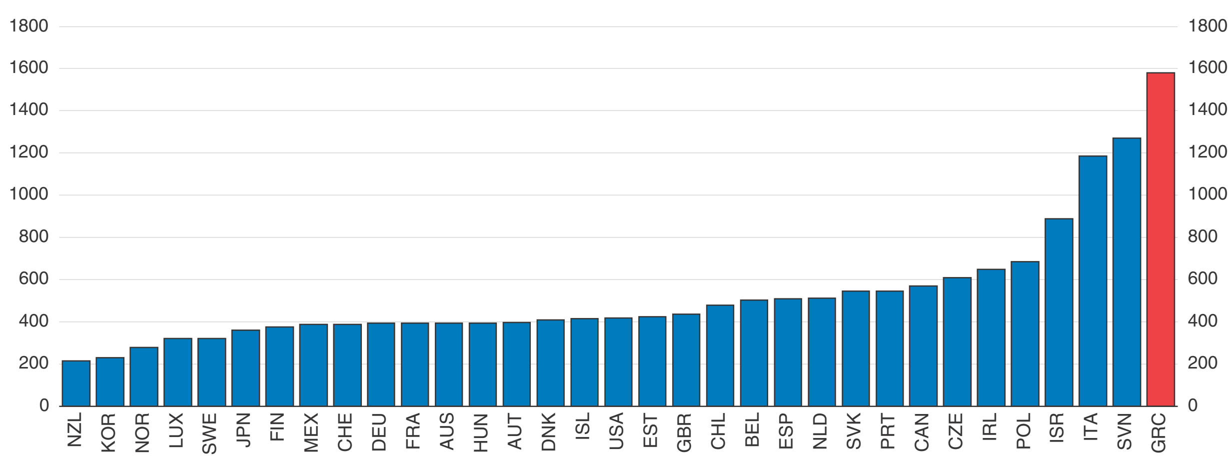
Implementing the new Code of Civil Procedures is important for overall reform effectiveness

An effective justice system is critical for the functioning of a market economy and fairness. A well-functioning legal system is accessible to all, and not just to the privileged. Furthermore, an effective judiciary is critical for the overall effectiveness of reforms in product markets, given that agents might only change their behaviour significantly if changes in regulations carry a reasonable probability of being enforced. A malfunctioning judiciary hinders economic and social development through different channels. Low effective investor protection, and slow judicial practices reduce the attractiveness to domestic and foreign investors. It can also lead to less favourable financing conditions, as weak creditor rights ends up pushing up interest rates and reducing debt maturity.

The slowness of the Greek justice system reduces the credibility of the rule of law and contract enforcement. A clear sign of these inefficiencies is in the World Bank's Doing Business Indicators Greece ranks 132 out of 189 countries still in 2015 in terms of contract enforcement, the lowest among OECD countries (Figure 1.12).

Figure 1.12. **Contract enforcement remains costly**

Days to enforce a contract, 2015



Source: *World Bank Doing Business database.*

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A New Civil Procedure Code was passed in July 2015 to address some major issues in the judiciary. Its main objectives are to speed up of trial completions – with a target of a case assessment of 160 days from the date the request is submitted – and strengthen the First Instance Courts. These courts are to undertake more responsibilities and process a larger number of cases. However, efficiency would be strengthened by a degree of specialisation of judges, as for example is the case in the recent judiciary reform of Italy (OECD, 2015b). Of course, so far these reforms only reflect primary legislation, and it will be important to implement them as soon as possible.

Additional measures are needed to improve the efficiency of the judiciary. For example, the digitalisation of the judiciary tools generally raises the productivity of judges and reduces trial length (Palumbo et al, 2013). The new Civil Procedure Code includes some measures that go in this direction, for example by introducing electronic updates, the option of e-signatures and optional electronic submission of trial documentation. However, making e-filing compulsory would speed up processes.

The caseload is increasing at an unsustainable pace, given current human and financial resources of the judicial system (Mitsopoulos and Pelagidis, 2011), suggesting a need for more judges and other judicial staff. Empirical evidence for Greece shows that increases in financial resources have not led to an improvement in the time needed to deal with cases (Mitsopoulos and Pelagidis, 2007). This means that more emphasis should be put on reducing judges' workload through alternative dispute resolution mechanisms, such as out-of-court settlements, which were recently introduced in Portugal. Model trials – the extension of a particular trial to other cases with identical characteristics – could also reduce the caseload, costs and uncertainty about rulings as well as create a greater incentive for out-of-court settlements by reducing the uncertainty of the outcome in case of litigation and therefore favouring a negotiation among the parties (Papaioannou, 2011). Another area for reform is the liberalisation of lawyers' fees, as the international evidence shows that this leads on average towards a reduction in litigation (Palumbo et al, 2013).

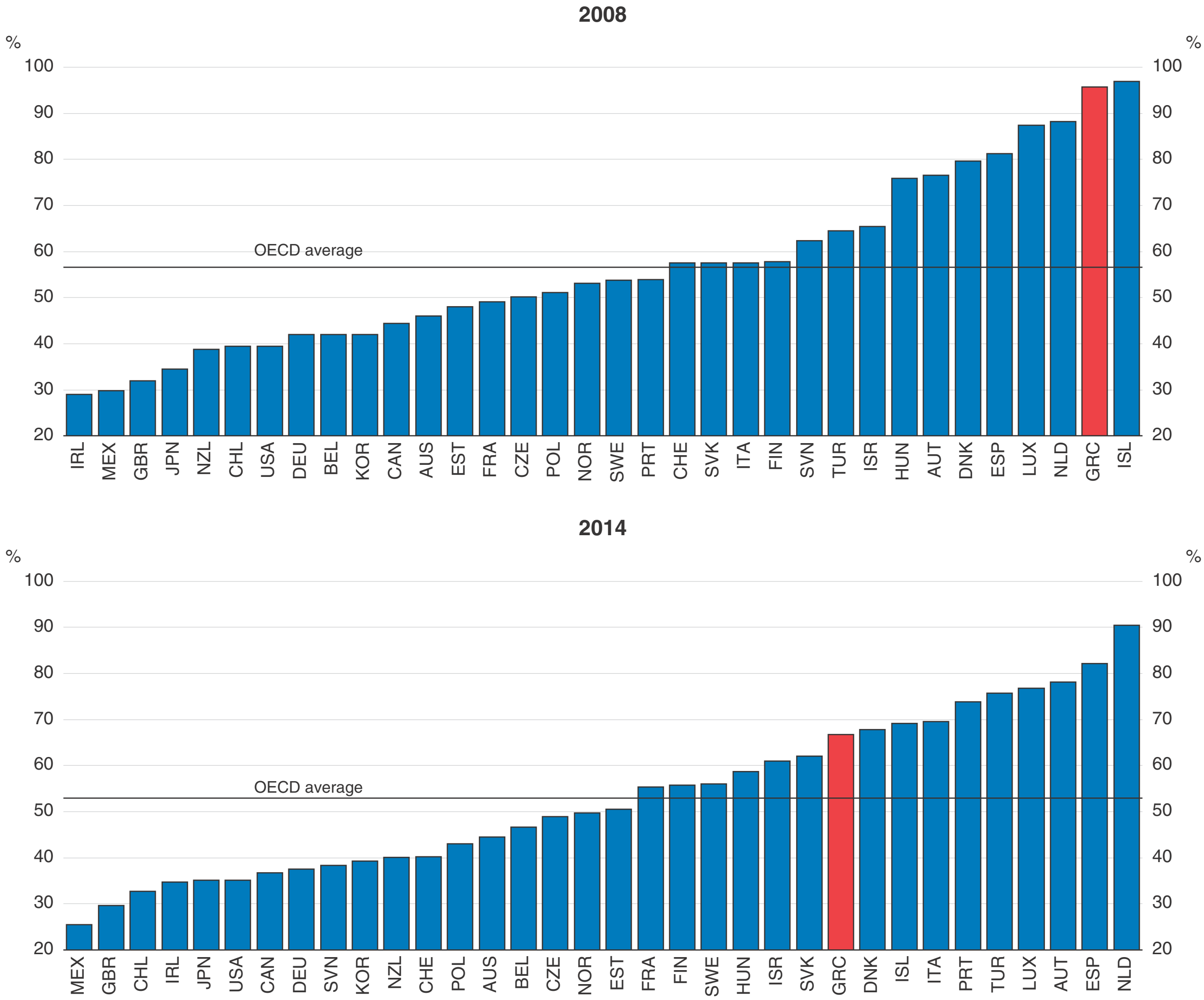
The pension reform is crucial to lift employment growth in the medium run

Recent pension reforms focused on improving the system's long-term sustainability. Reforms to the pension system in 2010 strengthened the long-term viability of the system by aligning benefits more with contributions, including by increasing and equalising retirement ages, and enhanced equity (OECD, 2013). A means-tested basic pension for the uninsured or those with insufficient years of contributions was also introduced. However, inequalities remain as some professional groups, such as liberal professions, kept their independent and more generous schemes. Furthermore, although the structure of the system was simplified, leaving six pension funds (in the past there were more than 100), several different sectoral systems, with different social security contributions and benefits, still operate within these funds. The reform also included a clause that curbs pension expenditure increases until 2060 to a maximum of 2.5% of GDP, triggering otherwise the need for parametric adjustments. In 2012, further adjustments were introduced including lower pensions, curbs in the number of hazardous occupations, an increase in the retirement age to 67 by 2021 and linking it to increases in life expectancy thereafter, as well as merging supplementary pension funds into one single fund.

These reforms reduced projected long-term pension expenditures from 16.2% in 2013 to 14.3% of GDP by 2060 (EC, 2015b). The reforms resulted in a 30% decline in gross replacement rates, which had been unsustainably high prior to the crisis. However, gross replacement rates still are above the OECD average (Figure 1.13).

Figure 1.13. **Pension reforms have improved the system's long-term sustainability**

Gross replacement rate, single person[1, 2]



1. The gross replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings. It is a measure of how effectively a pension system provides income during retirement to replace earnings, the main source of income prior to retirement.
2. The replacement rate for Greece does not take into account supplementary pensions.

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

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

Implementation was speeded up in the second half of 2015, but challenges remain. For example, the government has adopted secondary legislation and ministerial decisions to curb early retirement by increasing penalties and implementing restrictions to early retirement in the public sector (EC, 2015c). However, the decision by the Council of State in June 2015, which declared pension cuts undertaken in 2012 as unconstitutional, requires alternative legislation to neutralise its fiscal implications. Furthermore, a number of special regimes linked both to benefits and contributions still persist. For example, self-employed workers are allocated in 14 income levels regarding the income base on which the contributions are calculated, but they have the discretion of moving up to three income levels below the automatically assigned level. For some professions, such as self-employed engineers and lawyers, reduced contributions by 50% during the first five years of employment apply. Similarly, doctors and pharmacists enjoy reduced contributions by 40% for the first five years. Another preferential regime related to benefits of workers in agriculture is the provision of a basic pension (EUR 360 or less) without necessarily contributing to the system. Moreover, employees of certain banks who entered employment before 1993 can also retire particularly early: women at the age of 45 and with 20 years of contributions, and men at the age of 55 with 25 years of contributions. The existence of these different regimes points to a need for a rationalisation of exceptions to target those in need while, at the same time, safeguarding the viability of the social security system.

While the changes in the pension system if fully implemented will gradually reduce spending pressures over the next decades, today's expenditure on pensions remains high compared to other OECD countries. While old-age expenditure represented more than half of total social expenditure in Greece in 2012, the EU average amounted to less than 40%. The deep economic crisis has also contributed to push up public pension expenditures as percentage of GDP. Therefore, despite the reforms discussed above, public expenditure on pensions increased from 12.3% of GDP in 2008 to 17.7% of GDP in 2014 (Figure 1.14). These figures do not change significantly if private pension schemes, which are important in several OECD economies (e.g. Denmark, Netherlands, United Kingdom and United States) but marginal in Greece, are included in the analysis. The government presented a pension reform programme in January 2016. It would abolish all special pension regimes, restructure the supplementary pension and create a general common defined-benefit pillar, and a basic pension financed with general tax revenues. Although several of the details are still under negotiation with social partners and the creditor institutions, the targeted savings would be an additional 1% of GDP. Such a reform would also reduce the remaining horizontal and vertical inequalities in the pension system due to special regimes and potentially free some fiscal resources for other social expenditures, for example the minimum income guarantee, school meals or housing assistance.

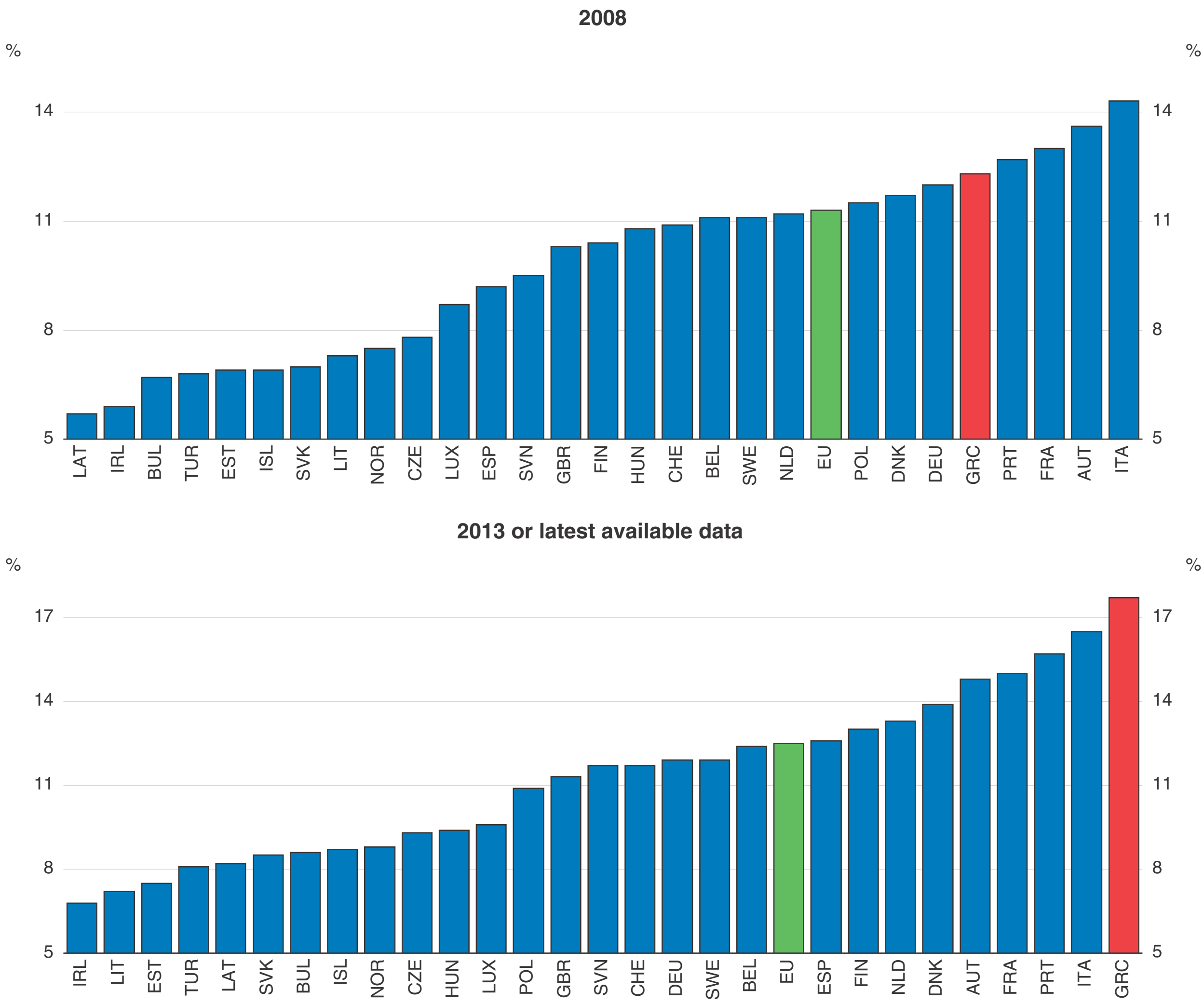
Labour market reforms are bearing some fruits already

Labour market rigidities and work disincentives were high before the crisis

Labour market outcomes before the crisis reflect a combination of restrictive labour market regulations and disincentives to work. Greece had very low job reallocation and creation rates, even during the economic expansion that took place after joining the Euro area in the early 2000s (OECD, 2010b). Other indicators are also consistent with significant distortions in the labour market. For example, labour force participation rates

Figure 1.14. **Public expenditure on pensions remains very high**

Gross public expenditure as percentage of GDP



Source: Eurostat.

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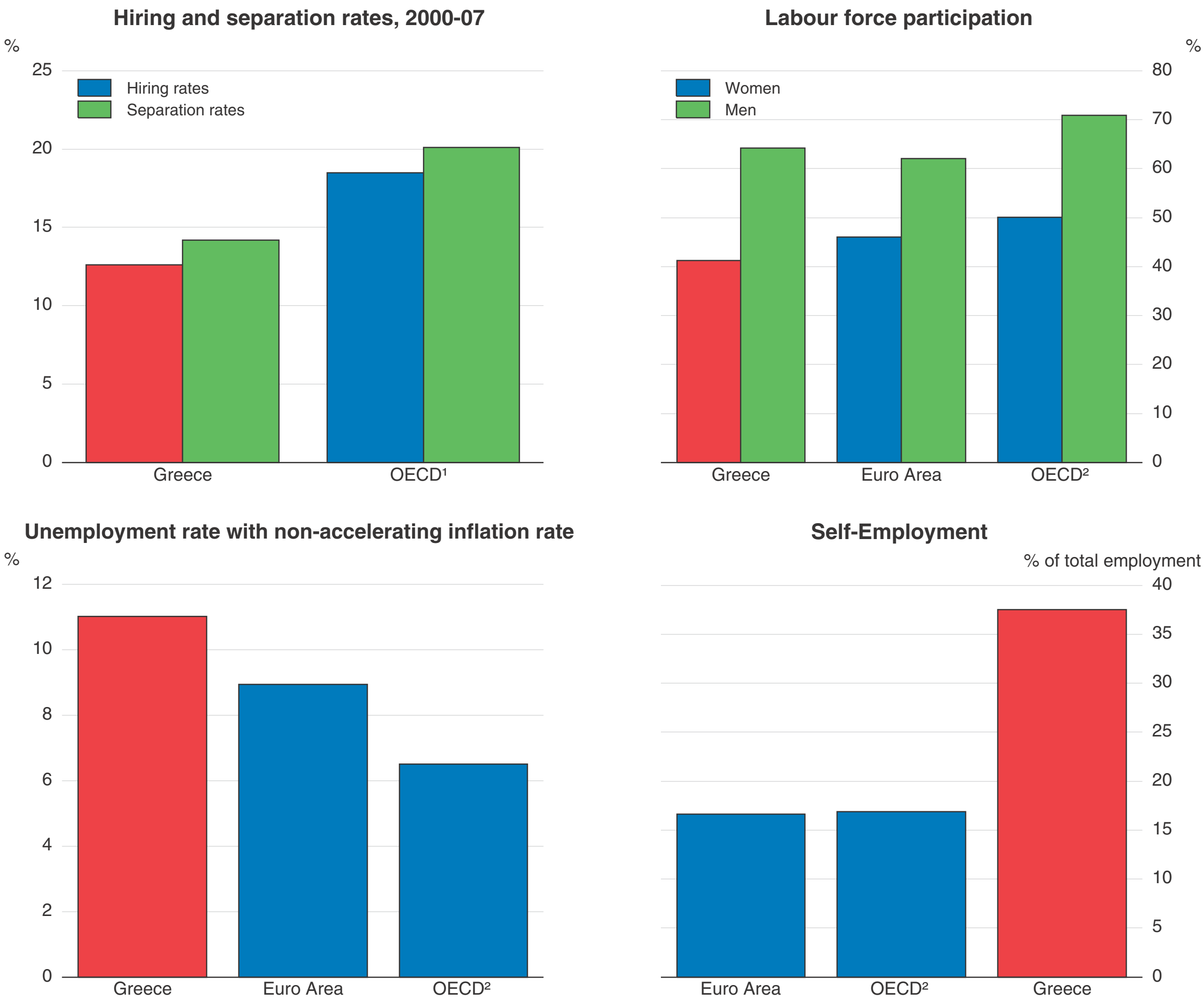
(especially for women) were significantly below the OECD average. In addition, the structural unemployment rate was on average at 11% during the 2000-08 economic expansion, compared to an OECD average of 6.5% and a Euro area average of a little less than 9%. Finally the very high share of self-employment, above 35% of total employment, compared to around 5% around the OECD or the Euro area, reflect the predominance of SMEs in the Greek economy and high levels of informality in the Greek labour market (Figure 1.15).

Before the crisis, Greece had one of the most restrictive employment protection legislation among OECD countries (Figure 1.16). In particular, long notice periods, large severance payments, and restrictions to collective dismissals reduced hiring and firing rates and therefore the job reallocation and job creation processes. Moreover, the wage bargaining framework, in particular the automatic extension of collective agreements, made wages more rigid to adjust to firm-specific needs and less aligned with productivity

Figure 1.15. **Labour market performance was weak before the crisis**

(Averages for 2000-08)



1. In this graph, OECD is a simple average OECD selected countries (ITA, SVK, HUN, SVN, CZE, PRT, BEL, AUT, NLD, DEU, SWE, NOR, FRA, POL, ESP, FIN, DNK, TUR and ISR).
2. OECD is a weighted average of the 34 OECD countries.

Source: OECD (2010b), *Employment Outlook*; *OECD Economic Outlook 98 database*; *OECD Labour department database*.

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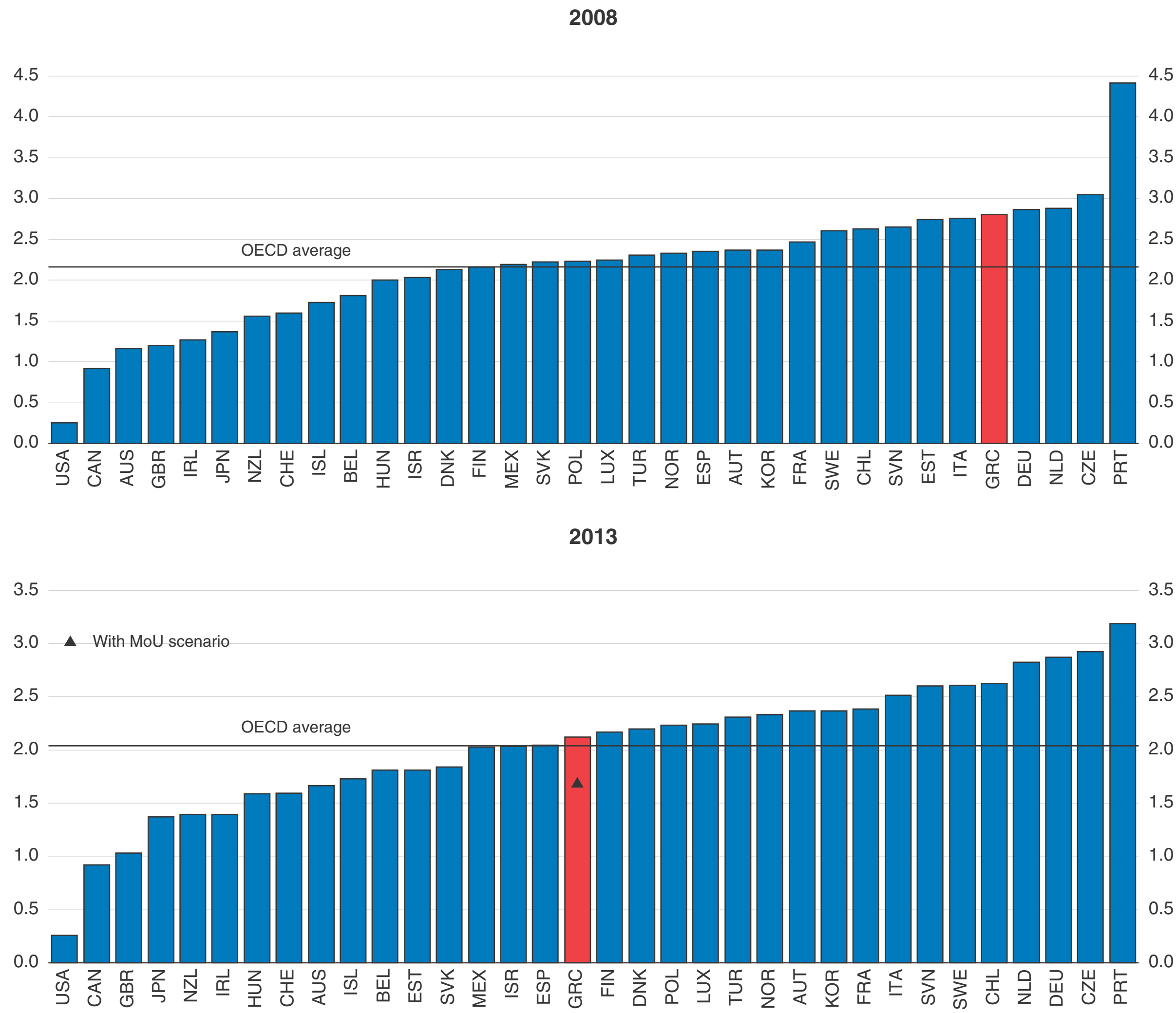
developments. Furthermore, generous pay and job stability in public enterprises and the public administration required the private sector to follow similar practices if it wanted to attract workers (Lyberaki et al., 2015). On the other hand, compared to other OECD countries the effect on minimum wages in Greece on earnings inequality and employment does not appear to have been particularly large (Koske et al., 2012).

Overall, these labour market rigidities also explain the adjustment dynamics in the Greek labour market in the aftermath of the crisis, characterised by a significant increase in unemployment and a rather gradual adjustment in private sector wages. For example, while the unemployment rate soared from 7.7% to 17.9% between 2008 and 2011, private sector wages only declined by 4% in nominal terms during the same period.

Figure 1.16. **Employment protection legislation was restrictive before recent reforms**

(Index between 0-6 from least to most restrictive)



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

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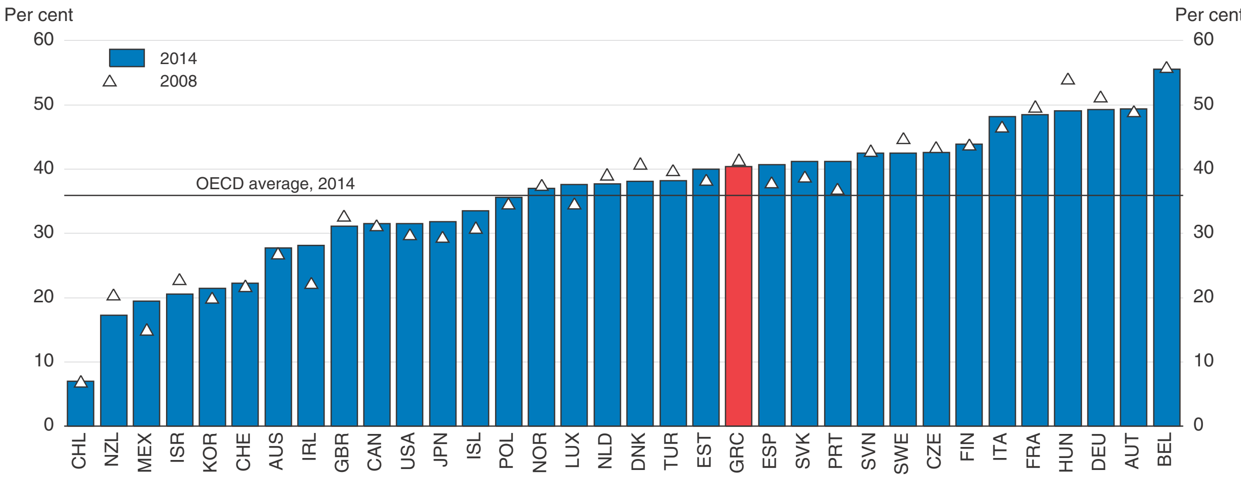
The tax and benefits system also blunted incentives for work. The average tax wedge in Greece increased steadily between 2000 and 2007 from 39% to above 42%, compared to a slight decline in the OECD average from 36.8% to 36.2%, and it remains above the OECD average (Figure 1.17). Furthermore, after the crisis, tax hikes to achieve fiscal consolidation, such as increases in employers' and employees' social security contributions and increases in the personal income tax (such as the solidarity contribution), have kept taxation on labour above the OECD average. However, while for workers at the lower end of the tax wedge remained relatively stable and close to the OECD average, for higher wage earners the increase was steep, expanding from 45% in 2000 to above 49% in 2006, more than 8 percentage points above the OECD average. While these changes make the tax system more progressive, they might also reduce incentives for entrepreneurship and spur under-reporting of income by self-employed higher-income individuals. High replacement rates for pensions and generous regulations regarding early retirement also discouraged the participation of elderly workers (see above).

Figure 1.17. **Taxation on labour is still relatively high in Greece**

Average tax wedge, single person at 100% of average earnings, no child



Source: OECD (2015), *Taxing wages database*.

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Despite increases in female labour participation during the crisis, it is still low compared to OECD countries. Low female labour force participation in Greece is explained by a series of public policies regarding childcare and social norms. The Greek tax system has preferential treatment for two-income households and there is little evidence of childcare affordability problems (Figure 1.18). However, low public expenditure on childcare restrains the supply of childcare services (OECD, 2013b; EC, 2009).

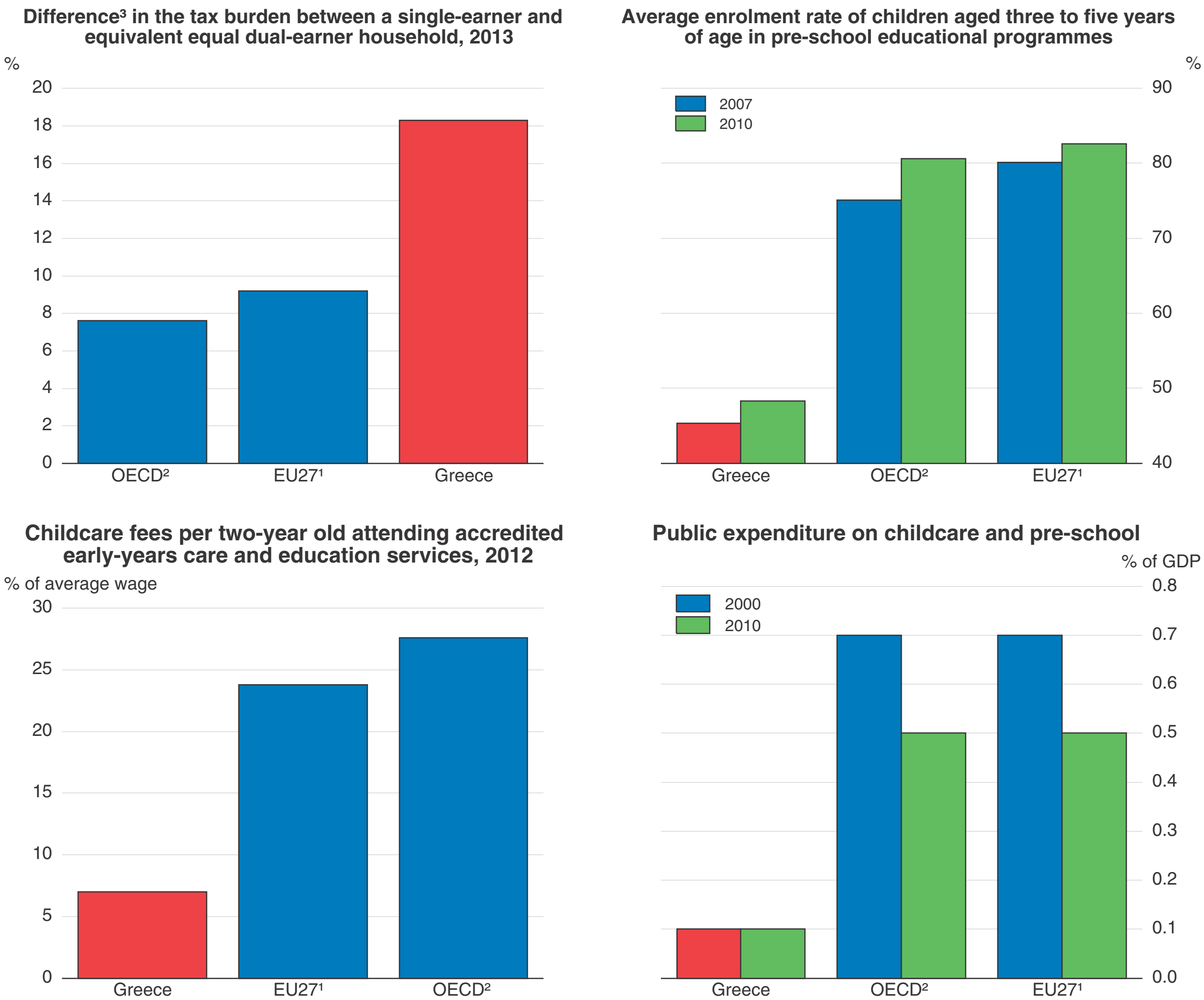
In the past, restrictions on part-time work reduced the opportunities for women to participate in the labour market (Lyberaki et al., 2015). Although these restrictions have been lifted, several remain, especially in the public sector which should act as a leader with respect to the private sector. Although the share of part-time working women who would prefer working full time increased from 42% in 2009 to 65% in 2014, their overall share in the labour force (3.6% in 2014) is still low compared to the OECD average of 5.5%. This means that there seems to be room for increasing voluntary part-time work among women. Encouraging firms to move towards more flexible work arrangements -in particular for white collar workers- such as for example using teleworking more extensively would also favour female participation in the labour market.

The short-term costs of increased labour market flexibility have been distributed unevenly

Since 2010, a series of labour market reforms have been implemented that were intended to introduce more flexibility. In terms of collective bargaining, firms are no longer required to follow sector-wide salary agreements, even if the firm-level agreements are less generous. Furthermore, size restrictions regarding the minimum number of employees to have a firm-level agreement were eliminated.

Employment protection legislation and the minimum wage were also reformed. The prior notice period of dismissal has been reduced from 24 months for white-collar workers to a maximum of four months. Severance payments have been reduced and are now

Figure 1.18. **The tax treatment of double-income households is favourable and childcare is affordable, but low expenditure on childcare reduces its availability**



1. Simple average of the 27 EU countries members of the OECD.
2. Simple average of the 34 OECD countries.
3. Difference in average taxes and contributions paid as percentage of gross household earnings, between a couple with two children age 6 and 11 with a single earner earning 200% of average worker earnings and a couple with two earners earning 100% of average worker earnings.

Source: OECD Education database; Canada, National Longitudinal Survey of Children and Youth (2010); Korea, Ministry of Health and Welfare (2010), and EU-SILC 2010 for other European countries. OECD Tax-Benefit model 2014. OECD 2012 Tax-Benefit model. Social Expenditure database 2014; *OECD Education database*.

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subject to a ceiling of 12 months' salary. The probation period for new hires (not temporary) has been increased from 2 to 12 months. These reforms have brought Greece close to the average OECD performance in terms of employment protection legislation. Although there are still relatively stringent restrictions on collective dismissals and the use of fixed-term contracts, the large rise in unemployment during the recession suggests that labour market today is sufficiently flexible to ensure a job-rich recovery if demand conditions improve and complementary product market reforms are implemented. At the end of 2011, the minimum wage was reduced by one third in nominal terms and a lower minimum wage for vulnerable groups was introduced. Furthermore, the minimum wage setting process was changed from being bargained between employers and workers associations to being set directly by the government, allowing for the level of unemployment to be taken into account.

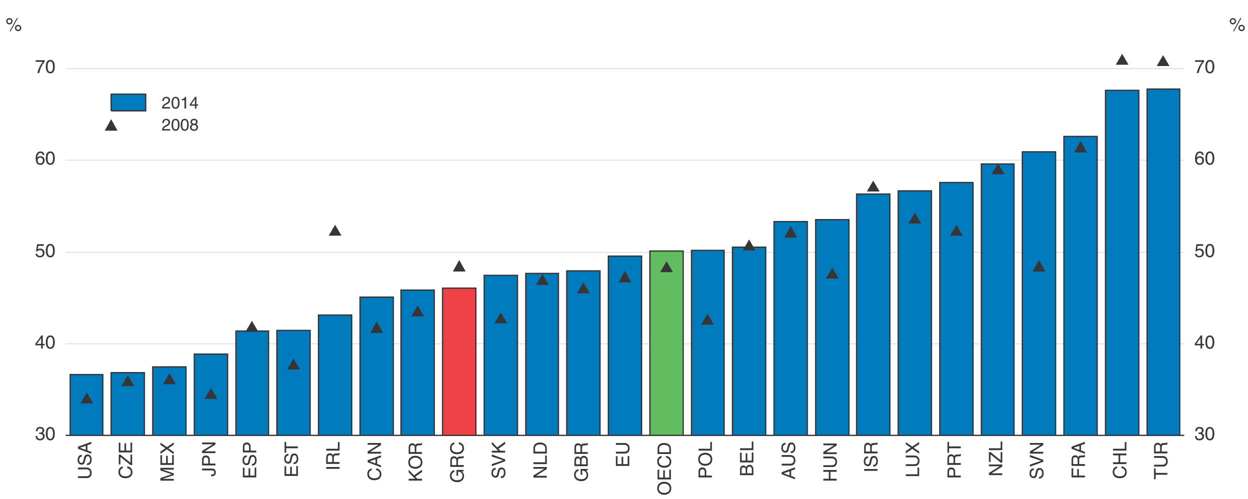
The Greek minimum – median wage ratio for single workers with no experience wage currently stands well below the OECD average (Figure 1.19). However, the minimum wage increases with seniority, a unique case among OECD countries, which makes the effective minimum wage higher. The minimum wage for workers under-25 years old without experience is EUR 511 per month, while the minimum wage for workers over 25 years old without experience amounts to EUR 586 per month. However, for each three years of experience it increases by EUR 58 up to nine years and for some married workers, there is an additional premium of EUR 58, such that it can go up to EUR 818. The revision of the minimum wage is due in 2016. It should be looked at in light of productivity and fairness considerations, including a revision of the seniority premium.

Labour market reforms are already changing labour market dynamics in Greece. While wages in the past did not react to changes in local labour market conditions (Daouli et al., 2013a), there is evidence that they have become more responsive to changes in local unemployment rates after the reforms (Cholezas and Kanellopoulos, 2015).

However, the effect of labour market reforms on job creation has been dampened by weak domestic and external demand. Despite the significant decline in labour costs, the internal devaluation has led to little overall growth and job creation in the Greek economy, although some rebalancing towards export activities seems to be underway. An additional factor might have been a suboptimal sequencing of product and labour market reforms. In particular, in situations like Greece before the crisis – where labour and product market regulations were highly restrictive – reducing product market restrictions before addressing employment protection legislation leads to better effects on employment on average than proceeding the other way around (Fiori et al., 2012).

Figure 1.19. **The minimum wage in Greece is relatively low**[1]

Minimum wage as percentage of median wage, 2014



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

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

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In the short-term, reforms that eased employment protection legislation led to higher unemployment but should now be contributing to employment growth as the economy recovers. Labour market reforms tend to generate greater labour market turnover, which plays an important role in the reallocation process of workers and therefore for productivity growth. Based on OECD-wide estimates, the effect of employment protection legislation reforms on the annual probability of becoming unemployed in Greece increased on average by 1.4 percentage points. This is an economically significant effect compared to the approximate 10% average probability of becoming unemployed for the 2005-11 period (Garda and Cournede, 2016). In contrast, while the effects on job loss tend to be felt very quickly, the benefits in terms of increasing the probability of becoming employed in general take between two to three years to materialise (Bouis et al., 2012). In the medium run, the average probability of becoming employed would increase by 1.6 percentage points, which is sizeable compared to an average probability of around 18% for 2005-11.

A more decentralised wage bargaining framework has led to more firm-level agreements. This should have positive effects for efficiency, as firm-specific circumstances can be taken into account, granting more overall flexibility. However, it can also lead to more labour income inequality if the firm-level bargaining power of workers is low. Evidence shows that recent firm-level negotiations were more favourable to workers in firms where a trade union existed before the wage bargaining reform, controlling for other firm or sector characteristics (Daouli et al., 2013b).

Employment protection legislation reforms have been especially costly in terms of job opportunities for low-income individuals. While the probability of becoming unemployed increased by 2.4 percentage points for individuals in the first income quartile, it did so only by 1 percentage point for the upper quartile. Likewise, there is no significant increase in the probability of becoming employed for workers within the three lowest quartiles of the income distribution, while this probability increased by almost 3 percentage points for individuals in the highest income quartile. Additional policies to mitigate these differences are therefore needed to avoid them translating into higher inequality via differences in employment opportunities (see below). Differences in employment rates were already an important factor in driving inequality in labour earnings before the crisis (Hoeller et al., 2012).

Better public employment services and vocational education and training

As the economy expands again, a key challenge will be to the get the unemployed – many of whom will have been unemployed for a long period- back to work. Employment creation has been surprisingly resilient during 2015, despite high economic uncertainty in the first half of the year and the recessionary impact of the subsequent bank holiday and capital controls. The resolution of uncertainties regarding the agreement with the institutions and the clear political mandate of the new government to implement this agreement are key factors that will provide stability for job creation to continue in 2016. With the economic recovery gaining traction, it will be important to make job recovery intensive and tackle long-term unemployment.

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

The fastest possible implementation of the public employment service (OAED) modernisation plan would help raise the quality of active labour market policies (OECD, 2013a). Together with the implementation of VET and apprenticeship plans, this could prove crucial to reintegrating the unemployed into the job market. To increase the relevance of VET offers and anticipate future needs, plans should be evaluated systematically; employers should be more involved and a system to detect current and future needs in terms of skills-needs should be created. Such measures would smooth the transition from the education system to the labour market, which was already difficult before the crisis (OECD, 2010b).

Future changes in labour market institutions should balance efficiency and equity

The 2015 MoU foresees potential changes to collective dismissals, collective bargaining and wage setting, as well as strikes and industrial action. An expert commission with the support of international organisations will produce a review on these issues, which will be discussed between social partners, the government and the institutions. According to OECD estimates, bringing collective dismissal legislation towards the least restrictive standards, similar to Finland today, would boost GDP by 0.2 percentage points in the next ten years (see Table 1.2). This rather modest estimate suggests that solutions that ensure sufficient flexibility to support job creation and growth and a proper balance between collective dismissal procedures and individual dismissal protection for workers are important. These estimates do not take into account the potential dynamic effects on productivity growth due to a more efficient reallocation of labour in the economy, which are often found to be more significant.

The previous collective bargaining system contributed to a growing misalignment between labour costs and productivity, which required a painful adjustment process during the crisis to correct. Therefore, reverting to the previous system should be avoided. The OECD experience shows that sector-level bargaining often pushes wages upwards in times of boom and delays the required wage-adjustments in times of crisis, particularly in the presence of heterogeneous firm performances (OECD, 2013b). In the past, several OECD countries moved towards more centralised negotiations or more coordinated bargaining which enables all sides to internalise the effects on unemployment and inflation.

However, in most OECD countries, firm-level negotiations have increased their importance in the last two decades. This has happened mainly through having sectoral agreements that basically set out the framework for firm-level agreements within each sector rather than establishing the wage increases and the inclusion of derogation clauses that allow firms to deviate from the sectoral agreement under certain pre-established conditions (OECD, 2013b). In principle, a sector-based bargaining system that allows for derogation clauses can be as flexible as a more decentralised system (Jimeno and Thomas, 2013).

Tax and benefit reforms should aim at supporting more inclusive growth

The changes in the tax mix will boost growth

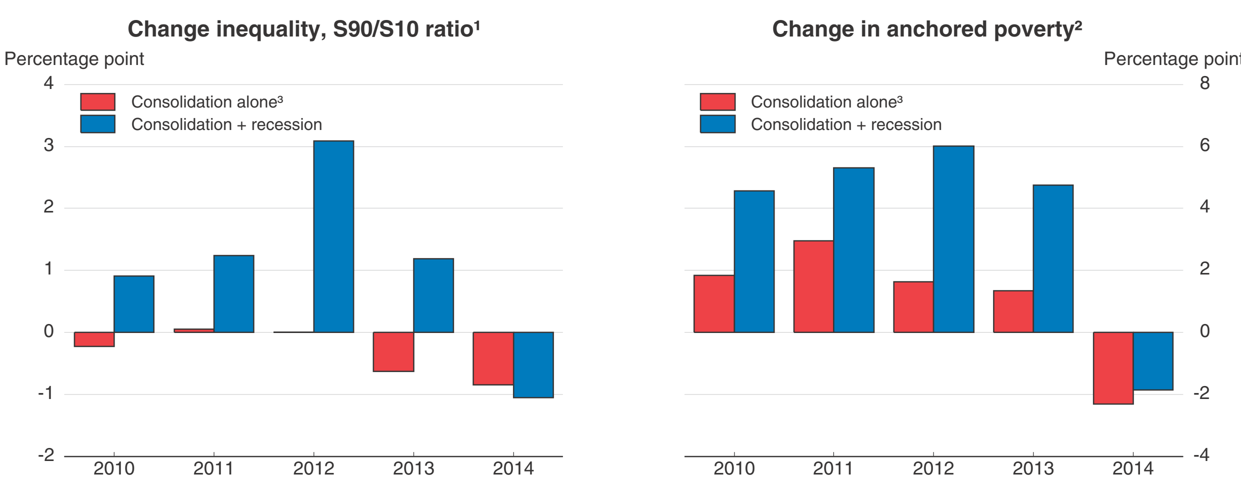
Since 2010, important changes in taxation have taken place. Overall, fiscal consolidation was based on increasing the share of indirect taxes as well as taxes on immovable property, which should boost growth by improving incentives to work and invest. The latest VAT reform will broaden the tax base. Overall, these reforms have a strong impact on output, raising it by an estimated 2.1 percentage points over the next decade.

In the medium run, if tax evasion is reduced, it could therefore lead to some fiscal space for lowering the corporate income tax and the labour tax wedges and making property taxation more progressive. This would lead to a more growth-friendly and fairer tax system, including for the export sector. For example, the property tax could be improved by a combination of tax administration and policy changes. Improving the fiscal cadastre to include all relevant aspects of properties would increase equity. While businesses are not subject to the supplementary tax on property, reducing the property tax burden of businesses would make the property tax more progressive and encouraging for firms. At the same time, the corporate income tax – at a rate of 29%- is indeed significantly above the average of the OECD countries (25% statutory rate in 2015), which might make Greece less attractive to foreign direct investment (FDI).

Fiscal adjustment was overall progressive, but contributed to increased poverty

Early fiscal consolidation policies *per se* appear to have had a small impact on inequality and relative poverty, partly mitigating the effects of the recession (Figure 1.20). As consolidation intensified in 2012, the measures appeared to have contributed to rising poverty. From 2013 onwards, fiscal consolidation measures have had a more equalising

Figure 1.20. **The effects of tax-benefit reforms and the recession on inequality and poverty**



1. The S90/S10 ratio is calculated as the ratio of the mean income received by the 10% of the population with the highest income to that received by the 10% of the population with the lowest income.
2. The poverty line is fixed at 50% of median equivalised household disposable income in 2005.
3. The impact of consolidation policies in year t is assessed relative to the state of the economy in t-1, which is equivalent to assuming that government policies altered public sector pay, public pensions, taxes and benefits, but left nominal pre-tax market incomes and employment levels as in the year before.

Source: Leventi and Matsaganis (2016), based on micro-simulation analysis (EUROMOD).

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effect, especially at the bottom of the distribution and in terms of its distance from the top. At the same time, the proportion of the population whose income fell below a real-terms poverty line anchored in 2005 increased with each round of consolidation: it was given a further boost by the rise in unemployment until 2014 when it finally partially reverted (OECD, 2013b; Leventi and Matsaganis, 2016).

The results from micro-simulations suggest that measures which either placed a greater burden on high incomes, or mostly affected households at the top of the income distribution (such as cuts in public sector pay and pensioners' solidarity contributions), cushioned the impact on inequality (Table 1.3). On the contrary, policies adversely affecting low-income households (such as the 2012 cut in unemployment benefits), or easing the burden on higher incomes (such as the 2013 income tax changes) had an opposite, inequality-increasing effect. More specifically, micro-simulation estimates for the period 2010 to 2014 indicate that changes in child benefits, pensioners' solidarity contribution (in effect, a rather steep levy on higher pensions), and cuts in public sector pay were progressive (Table 1.3). Furthermore, changes in personal income taxes (in 2010-11 and 2014), cuts in pension benefits (in 2010), and reductions in property taxation (in 2013) also seemed to have a progressive -though weaker- effect.

Table 1.3. **The effect of individual fiscal consolidation policies on inequality**

	Changes in the Gini index (in percentage points)[1]				
	2010	2011	2012	2013	2014
income taxes	0.00551	0.00388	no change	-0.00520	0.00019
public sector pay	0.00165	0.00016	0.00079	0.00122	no change
pension benefits	0.00075	no change	no change	-0.00193	no change
pensioners' solidarity contributions[2]	0.00041	0.00048	0.00180	0.00073	no change
social insurance contributions	no change	0.00008	-0.00005	-0.00010	-0.00004
self-employed and liberal prof. contribution	-0.00030	-0.00012	-0.00030	no change	no change
property taxes[3]	no change	-0.00252	no change	0.00045	-0.00074
child benefits[4]	no change	no change	no change	0.00661	no change
EKAS[5]	no change	no change	no change	no change	-0.00080
unemployment insurance benefit	no change	no change	-0.00107	no change	no change

1. The table shows the percentage point difference between the counterfactual value of the Gini coefficient in the absence of all consolidation measures presented in the table for a specific year (i.e. on the basis of previous year's policies) relative to its value after the implementation of the austerity measure in question. Positive (negative) values indicate progressive (regressive) impact. For a detailed description of policies see Leventi and Matsaganis (2016).
2. Solidarity contributions levied on main and supplementary pensions.
3. Emergency property tax in introduced in 2011; reduced by 15% in 2013; replaced by "single tax on immovable assets" in 2014, when additional tax on rental income is abolished.
4. 3rd child benefit, birth grant and lifetime pension for mothers of many children abolished, large family benefit became means-tested, single child benefit introduced in 2013.
5. EKAS: Income-tested supplement aimed at recipients of old age and survivor pension. Age threshold raised from 60 to 65 in 2014.

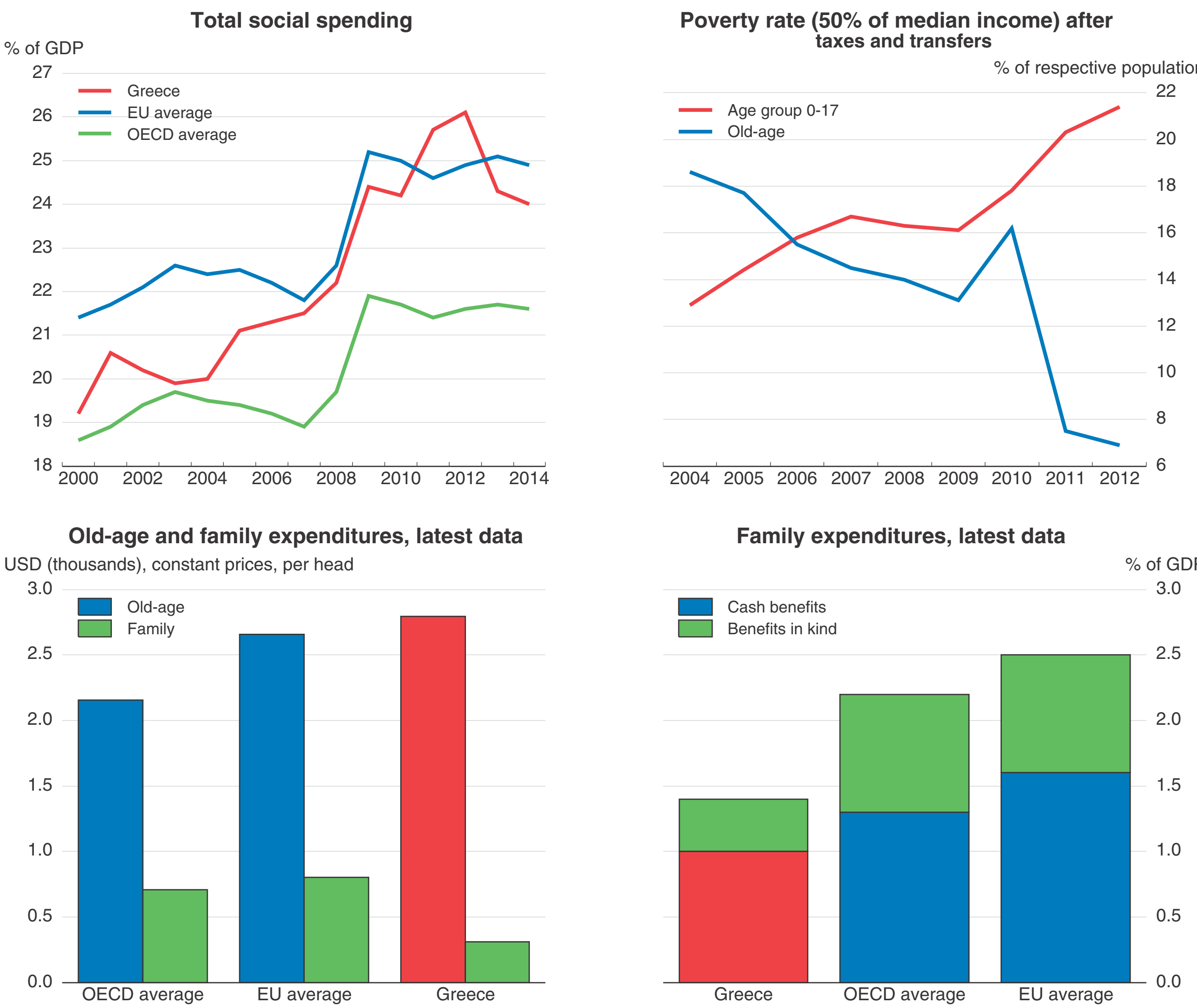
Source: Leventi and Matsaganis (2016), based on micro-simulation analysis (EUROMOD).

A strong progressive impact can be seen -for example- in the case of direct tax changes in 2010, with the greatest losses incurred by the top decile, while public pension cuts affected mostly the middle of the distribution. On the other hand, some policies –such as the introduction of emergency property tax in 2011; the cut in unemployment benefits in 2012; the changes in personal income tax in 2013 and the changes in property taxation in 2014 – had a large negative impact on the lowest deciles (Leventi and Matsaganis, 2016).

A better social safety net to support inclusive growth

Overall social expenditure remains around the EU average as share of GDP. The latest available detailed figures on social expenditures are for 2012, which show that family-related social benefits were low in per capita terms, while old-age benefits were generous compared to the OECD and EU averages (Figure 1.21). However, social expenditures have been part of the consolidation effort and they have been restructured and made more targeted and less generous. This has contributed to a reduction in overall social expenditures by two percentage points of GDP between 2012 and 2014.

Figure 1.21. **The composition of social expenditures does not match the changing social challenges**



Source: *OECD Social policy database* and Eurostat.

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

However, social expenditure remains highly concentrated on old-age, mainly via pensions, while the poverty profile has been shifting significantly. Child poverty is increasing, while old-age poverty continues to fall, at least when considering the relative poverty line of 50% of median income. Some of the recent changes in benefits have reduced but not reversed child poverty and old-age poverty (e.g. the single child benefit and the numerous-family benefit and the social dividend, respectively).

Implementing the means-tested guaranteed minimum income (GMI) scheme -under which households with low income and little assets would be eligible for income support- would help to ease some of the social consequences of the crisis. It will replace some of the emergency ad hoc programmes (most importantly food stamps and subsidies in energy and rent), but will require more resources. A pilot scheme conducted in 13 municipalities was launched in November 2014. Households were eligible for the scheme if the taxable value of their main residence was below EUR 90 000 and their disposable income was below EUR 2 400 per year (increased by EUR 1 200 per year for each additional adult in the household and EUR 600 per year for each child). The benefit level was set equal to the difference between the income ceiling and the household's income. A recent World Bank study estimates that rolling out this scheme at a national scale would cost around 0.5% of GDP per year and could raise the income of the poorest and reduce extreme poverty (World Bank, 2015a). The GMI will be phased in during the second half of 2016 and rolled out fully in 2017.

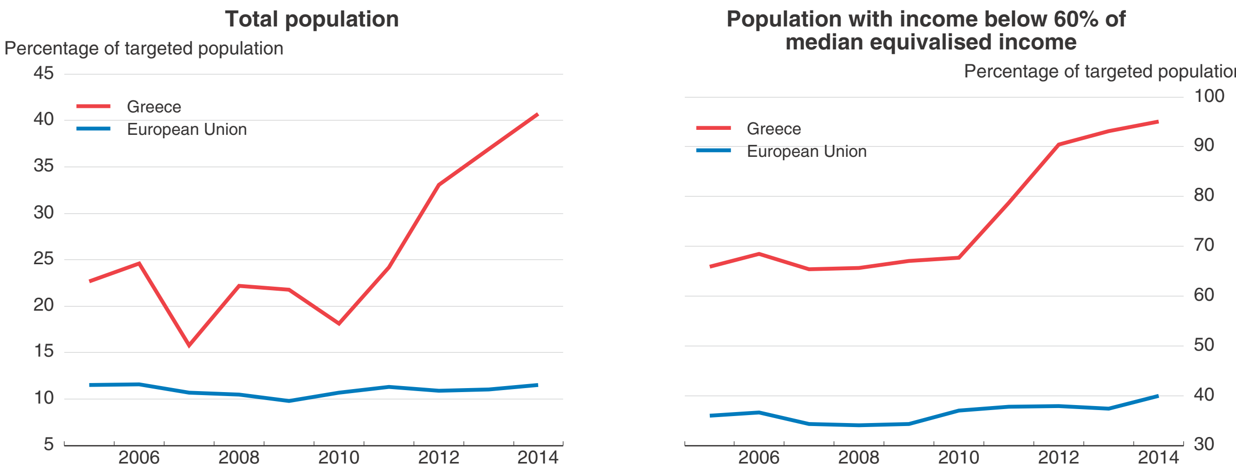
More actions are needed now to address child poverty. As recommended in the *2013 Economic Survey,* a means-tested subsidised school meals programme would reduce food insecurity among children from poor households. Examples of such programmes can be seen in France, the United States and the United Kingdom.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

Furthermore, the most vulnerable households face significant and mounting pressure of housing-related expenditures compared to other EU countries (Figure 1.22). Moreover, homelessness has increased significantly since 2009 (OECD, 2013b). The previous main housing subsidy (OEK) was abolished in 2012 and there is no social housing programme. While a social housing programme would be the best solution in the medium run, introducing a well-targeted housing assistance programme is a priority for dealing with this problem in the short run. Assuming that such a programme would be similar in size as the previous OEK subsidy, this would amount to around 0.5% of GDP per year.

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

Figure 1.22. **Housing problems among the vulnerable population are widespread**

Housing cost overburden rate[1]



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

Source: Eurostat.

StatLink http://dx.doi.org/10.1787//888933336995

Recommendations on structural reforms for inclusive growth

Key recommendations

- Ease regulations in network industries and strengthen the capacity and independence of regulatory agencies.
- Implement the 2012 Better Regulation Law.
- Reduce delays and backload of cases in the judiciary by using more e-justice tools, training judges, implementing out-of-court settlements, model cases, and specialised competition courts.
- Undertake an expenditure review to create fiscal space for strengthening the social safety net and expanding active labour market policies.
- Conclude the reform of the pension system including a review of special regimes and introducing a basic pension in a fiscally sustainable way.
- Speed up the modernisation of the public employment service (OAED).
- Implement the minimum income guarantee, a targeted school meal programme for poor children and a well-targeted housing assistance programme.
- Reform labour market institutions and review the minimum wage taking into account fairness and efficiency considerations.

Further recommendations

- Increase reform ownership by quantifying and communicating the benefits of reforms.
- Build capacity to assess the impact of reforms and reinforce coordination across line ministries.
- Strengthen the Hellenic Competition Commission’s advocacy work by allocating more resources to its work outside the area of law enforcement.
- In the event of a major exogenous adverse shock, avoid as much as possible large tightening of discretionary fiscal policy, taking into account fiscal targets.
- Facilitate licensing by implementing a one-stop shop for operating a business and reduce regulatory burden by using regulatory impact assessments and policies such as “one-in two-out” more systematically.
- Reduce restrictions to competition in sectors such as manufacturing, construction and wholesale.
- Increase the supply of childcare services and encourage flexible work arrangements.

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ANNEX A.1.1

Technical Annex: Simulating the long-run impact of structural reforms on output

Quantification of structural reforms is based on the OECD's *Going for Growth* framework of policy indicators and empirical estimates of the relationship between policy and economic outcomes. This is founded an on extensive research programme over many years to understand these relationships.

Three types of structural reforms are considered: product market reforms, labour participation reforms and job-friendly labour market reforms.

For each type of reform, three OECD inputs are used:

1. A numerical indicator of the ***policy stance*** in each area (PMR, EPL, labour force participation).
2. A ***policy shock*** to the indicator reflecting reforms.
3. An estimate of the ***impact*** of changes in the indicator on structural productivity or labour force participation after 10-years.

Effects of structural reforms on productivity

Effects on multifactor productivity growth of product market reform (PMR) reforms

The framework used in based on Bourlès et al. (2010), column (4), Table 1:

Multifactor productivity (MFP) is assumed to follow an error correction model (ECM) of the form:

$$\Delta \ln MFP_{i,j,t} = a_0 \Delta \ln MFP_{F,j,t} + a_1 gap_{i,j,t-1} + a_2 REG_{i,j,t-1} + a_3 REG_{i,j,t-1} \times gap_{i,j,t-1} + f_i + f_{j,t},$$

where $MFP_{i,j,t}$ is the MFP level of a non-frontier country-sector pair i,j in year t, $MFP_{F,j,t}$ is the MFP level at the technological frontier F for sector i in year t, $REG_{i,j,t}$ is the OECD's regulatory impact indicator – which measures regulatory burdens stemming from anti-competitive product market regulations in upstream sectors – in each country/sector/year triad,[1] and $gap_{i,j,t}$ is the country-sector distance from the sector frontier in year t, defined as:

$$gap_{ij,t} = \ln\left(\frac{MFP_{Fj,t}}{MFP_{ij,t}}\right).$$

f_i and $f_{j,t}$ denote respectively sector and country-year fixed effects. Estimates (over the 1995-2007 period for 24 OECD countries) indicate that the leader country's MFP growth in a particular sector has a positive impact on MFP growth in that same sector in less productive countries (technological pass-through effect), with α_0 = 0.122, while the gap variable also has a significant and positive effect on MFP growth (technology catch-up effect), with α_1 = 0.032. Importantly, the indicator of regulatory burden has a negative influence on MFP growth (α_2 = -0.124). This effect is found to be even more negative for country/sector/period triads close to the technological frontier, as suggested by the positive coefficient on the interaction term (α_3 = 0.132).

Effects on labour productivity growth of employment protection legislation (EPL) reforms

The framework used in based on Bassanini et al. (2009), equation (2) in Table 6 (p. 383) and equation (5) p. 384:

The dynamics of labour productivity is given by the following equation (an error-correction framework in which the long-term gap between labour productivity in the country considered and the leading country depends on the stringency of EPL for regular workers and other constant unobserved factors, see Bassanini et al. 2009 for details):

$$\log \Pi_t = (1-\varphi)\log \Pi_{t-1} + \beta\lambda EPLR_{t-1} + \varphi \log \Pi^* + c,$$

where Π is the aggregate labour productivity level in the country considered, *EPLR* is the OECD EPL index for regular employment, Π^* is the aggregate labour productivity level in the productivity leader, ø = 0.02 and β = -0.174 as estimated by Bassanini et al. (2009), and

$$\lambda = \sum_j \theta_{bj} \times (Layoff_j^{US} - 4)$$

is a measure of the extent to which EPL puts effective constraints on labour turnover across the economy, with θ_{bj} the value added share of the "EPL-binding" industry *j* and $Layoff_j^{US}$ the average layoff rate of industry *j* in the United States over 2001-03. An industry is said to be "EPL-binding" if its layoff rate (defined as the ratio between annual recorded layoffs in a particular year and wage and salary employment of that year) was greater than 4% in the United States over 2001-03.[2], [3] Data on value added at the industry level comes from the OECD STAN database (Structural Analysis Database) for OECD countries (except for Mexico and Turkey) and from UNIDO for other G20 countries.[4]

Effects on employment of labour tax wedge and pension reform

The framework is based on Bassanini and Duval (2006), Tables 2.1, 2.2, and 2.3:[5]

$$\Delta EMPR^*_{1524} = -0.34 \times \Delta TW,$$
$$\Delta EMPR^{M*}_{2554} = -0.3 \times \Delta TW,$$
$$\Delta EMPR^{F*}_{2554} = -0.5 \times \Delta TW,$$
$$\Delta EMPR^*_{5564} = -0.33 \times \Delta TW,$$

$$\Delta EMPR^* = \sum_j \frac{POP_j}{POP_{1564}} \Delta EMPR^*_j,$$

where $EMPR^*_j$, is the equilibrium employment rate of agents from group *j* (in %) and *POP* is the population. The first four equations relate the change in labour tax wedge to the changes in the equilibrium employment of youth, prime age male, prime age female and old age workers. The change in aggregate equilibrium employment rate is computed as weighted sum of those changes.

The actual rate of employment is assumed here to fully adjust to its long-run level in ten years.

Notes

1. This indicator is calculated for each country by using total input-output coefficients as follows:

   $$REG_{j,t} = \sum_{k} NMR_{k,t} \times w_{k,j},$$

   where $NMR_{k,t}$ is the OECD indicator of anti-competitive regulation in non-manufacturing sector *k* in year *t* and the weight $w_{k,j}$ (comprised between 0 and 1) is the total input requirement of sector *j* for intermediate inputs from non-manufacturing sector *k*.

2. Such a criterion is needed because the analysis carried out in Bassanini et al. (2009) is a differences-in-differences approach that only identifies the impact of EPL on the productivity growth *gap* between binding and non-binding industries, while the effect on non-binding industries is not identified. The assumption made here that EPL has no impact on productivity growth in non-binding industries – as well as the omission of any possible impact of EPL on reallocation of resources from lower to higher-productivity growth sectors – means that the simulated effects of EPL reform on productivity growth presented below should be seen as lower-bound estimates.

3. EPL-binding industries identified using this criterion are Textiles, wearing apparels and leather; Wood and wood products; Paper, printing and publishing; Coke, refined petroleum, nuclear fuel; Rubber and plastics; Non-metallic mineral products; Basic metals and fabricated metals; Machinery n.e.c.; Electrical and optical equipment; Transport equipment; Manufacturing, n.e.c. and recycling; Construction; Transport and storage; Post and telecommunication.

4. Data for Construction, Transport and storage, and Post and telecommunications are missing in the UNIDO database. For the purpose of the simulations the value added shares in GDP of these sectors are assumed to be the same as the average shares observed across the five lowest-income OECD countries (Czech Republic, Hungary, Slovak Republic, Poland, and Portugal). Likewise data for a few sectors in Ireland and for Electrical and optical equipment in China are missing and for the purpose of the simulations the shares in GDP of these sectors are assumed to be the same as the averages observed respectively in other OECD countries and in other non-OECD countries.

5. Some of the material in Bassanini and Duval (2006) was also published in Bassanini and Duval (2009).

Chapter 2

How to boost export performance

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

Greek exports have increased from 19% of GDP in 2009 to 32% in 2014 but are still low for such a small economy. Export performance, measured as the share of exports in goods and services to export markets, deteriorated significantly in the last decade, particularly in the service sector and much more than in the Euro area on average. Shipping, which accounts for 20% of Greek exports, has underperformed significantly reflecting the slump in world trade. In agriculture, hunting, forestry and fishing and in other non-metallic mineral products the share of Greek exports is growing in line with world trade. In the major export sectors, fuels and processed food, Greek world market shares did not increase. In contrast, exports in Portugal and -albeit to a lesser extent- in Spain have rebound strongly since the beginning of the crisis in 2008 (Figure 2.1).

Export underperformance in Greece is estimated to account for a third of the decline in GDP between 2007 and 2012 (Arkolakis et al, 2015). Structural problems in product markets, barriers to exporting, access to finance and skills have outweighed the impact of large declines in wages on competitiveness. Developing exports further, at a time when the domestic economy is expected to remain weak, can play a key role in reviving growth in Greece. This chapter analyses the structure of Greek exports and the main reasons for the weak performance and makes recommendations on how to make exports a new engine of growth.

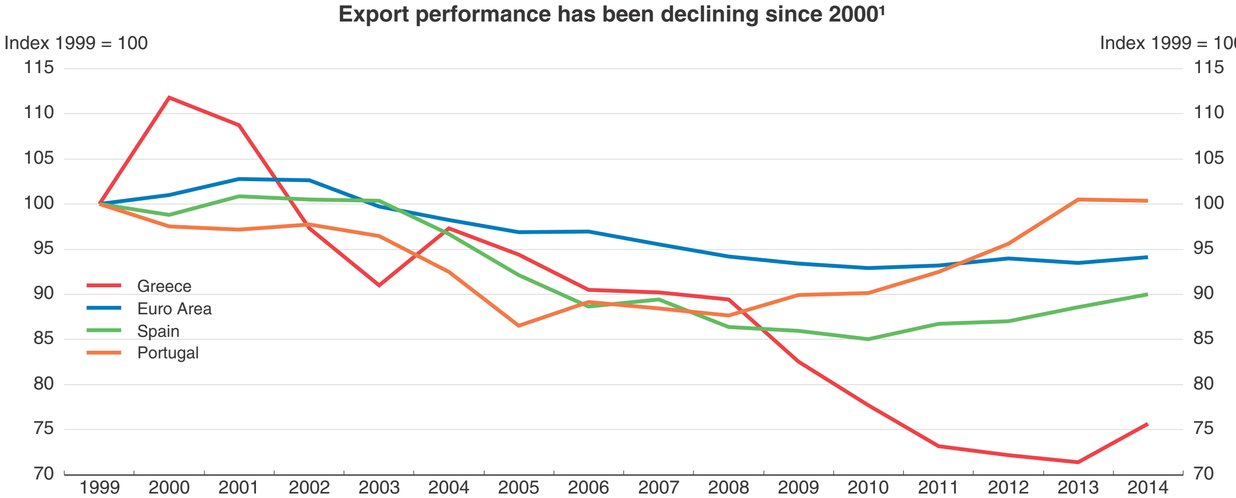
The nature and performance of Greek exports

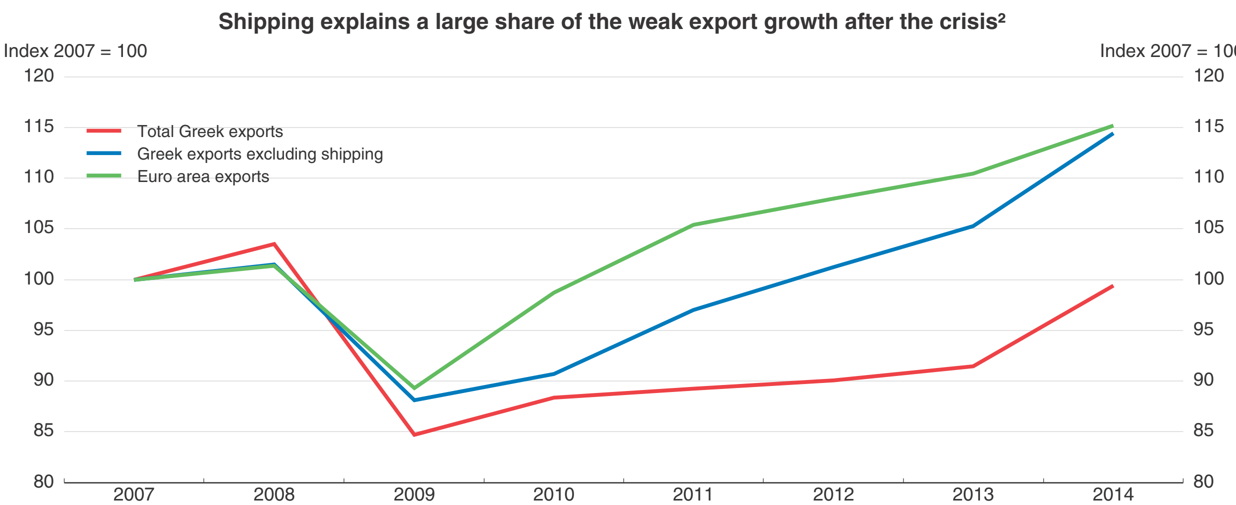
Greece is a relatively closed economy considering its size

Greece had a persistent trade deficit and low exports and imports in relation to GDP for decades before the crisis, including after joining the European Union in 1981 (Figure 2.2). Greece has not been able to take full advantage of the benefits arising from its entry in the EU. The competitiveness of Greek products in terms of both prices and quality was not boosted by the reduction in trade barriers upon EU entry. The structure of Greek trade did not converge towards the average structure of the EU15 countries. Imports, by contrast, rose through the boom period, driven by high domestic demand growth (Papazoglou, 2009). This also reflects the pull of resources to the non-tradables sector following the large rise in the public sector, which inflated wages and reduced export competitiveness. The role of structural rigidities and barriers to trade and competition are also important (see below). The trade deficit has declined since 2009 but its reduction in real terms comes mainly from the collapse in aggregate demand and thus imports, rather than an increase in exports. This fact points to continued structural problems in boosting exports after the crisis, despite considerable reform and improvements in cost and price competitiveness.

Greece has also suffered from the slowdown of global trade and weak demand in its main export markets in the aftermath of the global financial crisis. After having grown largely above GDP during several decades, the rate of global trade growth slowed in comparison to GDP in the early 2000s. Since the beginning of the crisis, trade and GDP

Figure 2.1. **Export performance has been weak, but export growth excluding shipping has been in line with euro area exports since 2009**[1]





1. Export performance is calculated as the ratio of exports of goods and services to export market.
2. Real exports of goods and services. Nominal exports on shipping come from the Bank of Greece and have been deflated by the price of goods and services.

Source: OECD Economic Outlook 98 database.

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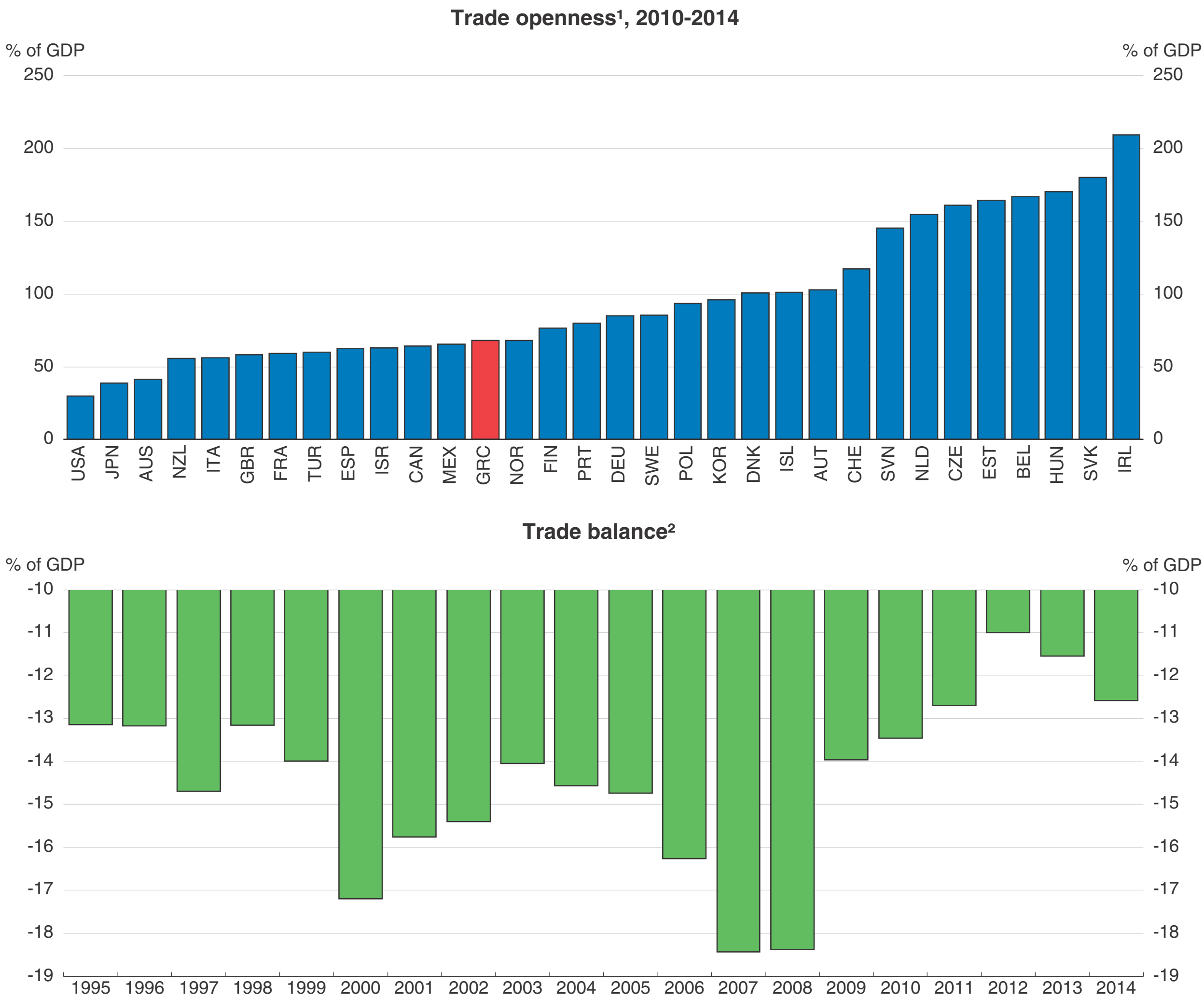
growth have been weak. This slowdown is explained by cyclical and structural factors. In the last 4 years, a depressed demand in the Euro zone (intra-EU trade accounts for about one-third of global trade) and in China reduced trade growth (OECD, 2015d).

Greek exports are dominated by oil (which is imported as crude, refined and then exported), shipping and tourism. The main goods exported are mineral fuels, food and live animals and manufactured goods (Figure 2.3). Mineral fuels, lubricants and related goods are now the biggest share of goods' exports, in nominal terms. In services, tourism and transport are the most important exports (43%). Greece's main partners for both goods and services are the Euro Area and the other countries in the European Union (Figure 2.4). More specifically, in tourism, Germany, the United Kingdom and Russia represent 36% of Greek exports while the European Union as a whole represents 62%.

Figure 2.2. **Trade openness is low and the trade deficit is persistent**



1. Measured as the ratio of (exports + imports) to GDP, in current prices, in percentage.
2. Measured as the ratio of (exports-imports) to GDP, in current prices, in percentage.

Source: *OECD National accounts database.*

StatLink http://dx.doi.org/10.1787/888933337274

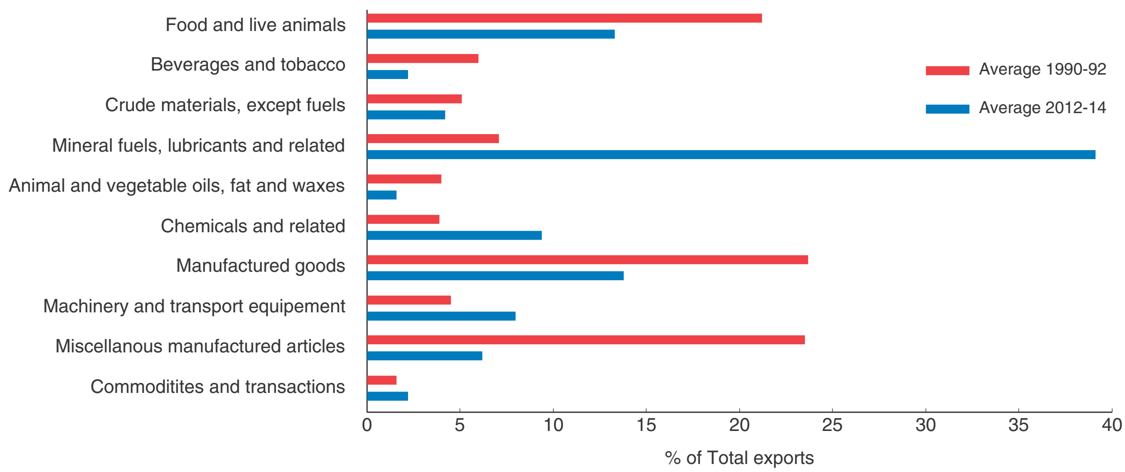
Specialisation in low-technology goods limits participation in global value chains

The pattern of specialisation plays an important role in constraining Greek export performance (Athanasoglou et al, 2010). Greek exports are concentrated in low-technology products which face strong competition from countries with lower labour costs, such as Bulgaria, China and Turkey. High and medium-high technology products, which have higher world market growth rates, are only around 20% of total exports compared to more than 70% in some OECD countries (Figure 2.5). More worrying, since 2007, almost all the increase in exports came from medium-low technology industries. Exports of the other industries have stagnated.

The weak specialisation of Greek exports and dominance of low-tech goods partly explains the low integration in global value chains (GVCs). Global value chains allow firms and economies to specialise in the part of the production process they are best at, using

Figure 2.3. **Exports of goods are dominated by refined oil**

Share of exports by commodities with the World



Source: *ITCS database.*

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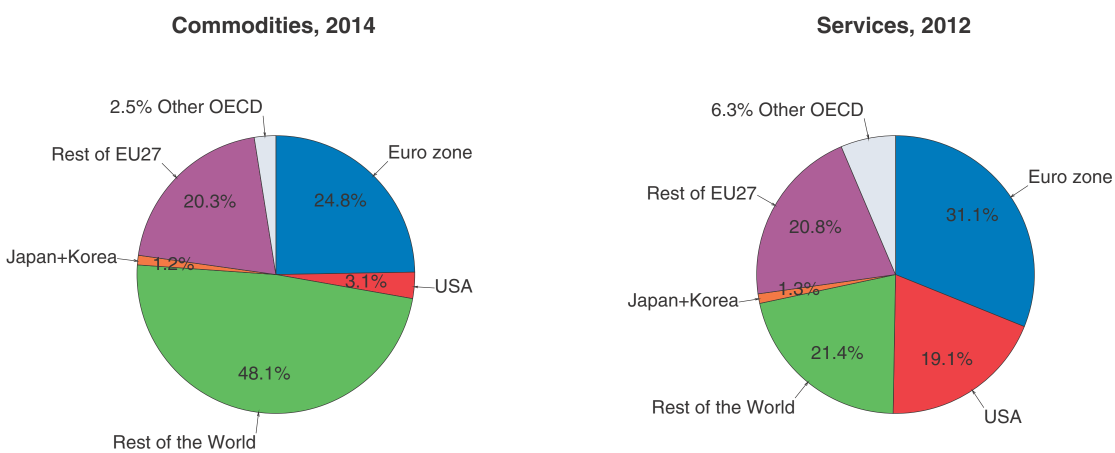
Figure 2.4. **Greece's main export partner is the European Union**



Source: ITCS database.

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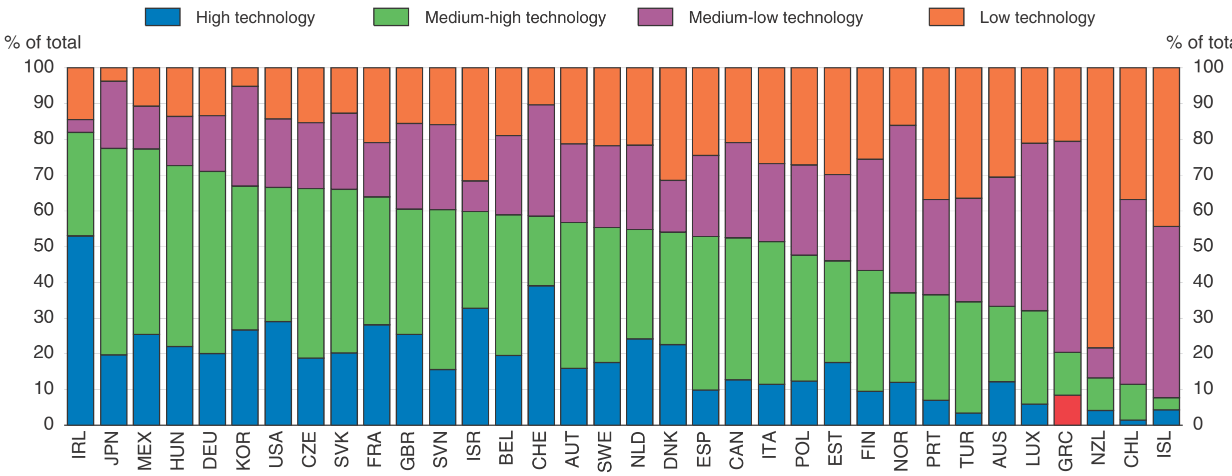
intermediate goods and services from elsewhere without having to develop a whole industry. Being well integrated into a value chain enhances competitiveness by providing access to cheaper, more differentiated and better quality inputs (OECD, 2013b). Trade-facilitating measures, such as fast and efficient port and custom procedures, are important for the smooth operation of value chains.

Greece's domestic value added content of its exports was 75% in 2011, close to the OECD average and 8 percentage points lower than in 1995, reflecting Greece's increasing integration in GVCs. The relatively high domestic value added in Greece's exports reflects in part its specialisation in services exports. Transportation, together with telecommunications accounted for a substantial proportion of value added exports in 2011. The number of jobs embodied in foreign final demand is still low compared to other OECD countries; they represent 25% of total jobs for Greece and around 40% on

Figure 2.5. **Low-technology products dominate exports**

Exports by technology intensity



Note: Countries are ranked by the share of high and medium-high technology in total exports.
Source: STAN bilateral trade of goods by industry and end-use.

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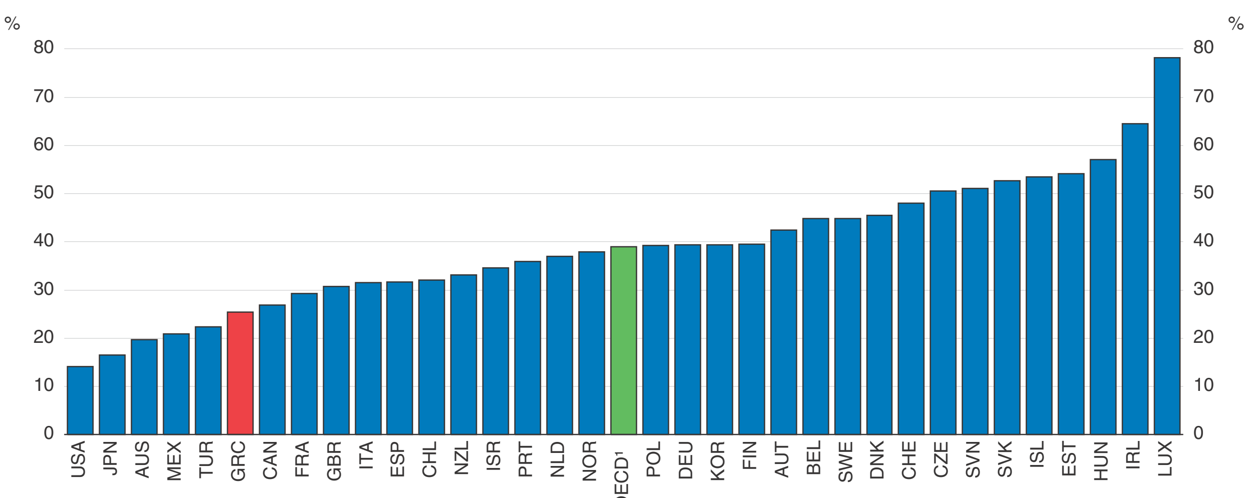
average for OECD countries (Figure 2.6). Moreover, services embodied in manufacturing exports are low reflecting a lack of diversification. Globally, Greece has not integrated well into European and global value chains (Figure 2.7). The participation of Greece in GVCs is low in comparison to its size and location but consistent with its rather small openness. Traditionally, small open economies such as Luxembourg, the Czech Republic or the Slovak Republic source more inputs from abroad than large countries, such as the United States or Japan, which tend to have more domestic value chains(De Backer and Miroudot, 2013).

Figure 2.6. **The number of jobs integrated in GVCs is low**

As a percentage of total business sector employment



1. OECD is a simple average of OECD countries.
Source: OECD (2015), *Science, Technology and Industry Scoreboard*.

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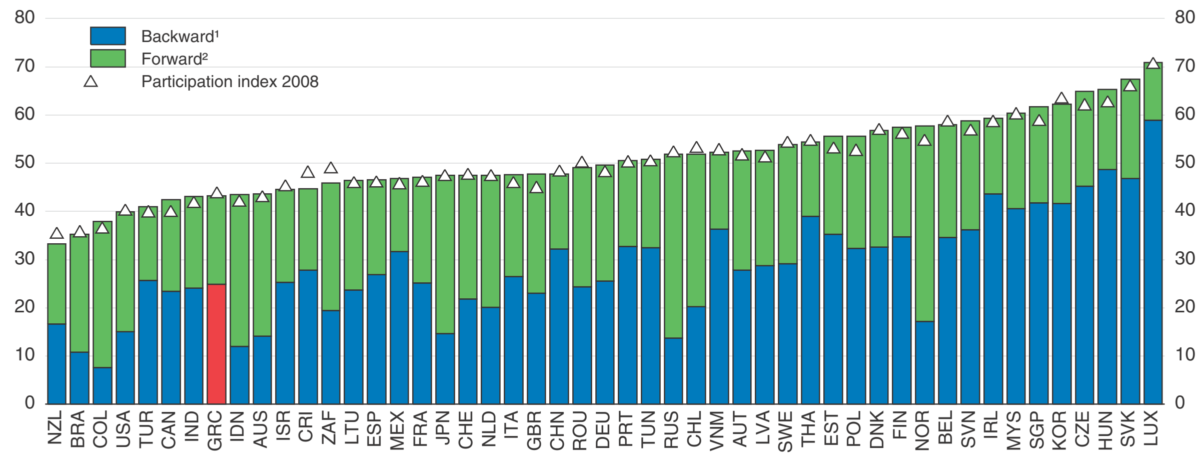
Figure 2.7. **Participation in global value chains is weak**

As a share of gross exports, 2011



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

Source: *OECD International Trade database.*

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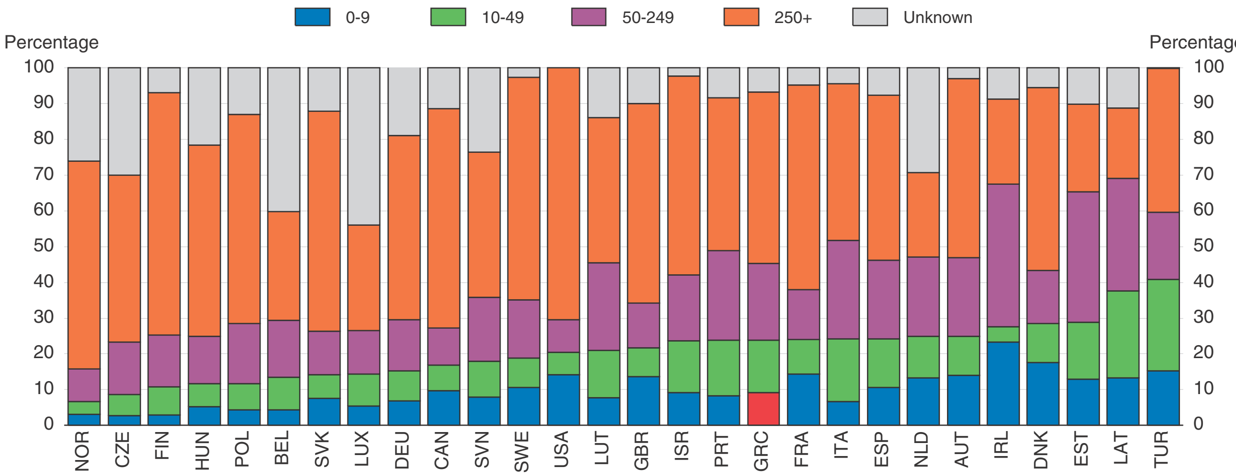
According to the Bank of Greece, weak trade integration is consistent with the low FDI flows into Greece; the small size of Greek enterprises; the small size of the manufacturing sector and lack of efficient infrastructure. Multinational enterprises (MNEs) are the main actors involved in GVCs (OECD, 2013b), due to their international trade and investment links. It is often difficult for small firms, which are predominant in Greece, to enter international markets and value chains due to insufficient scale to support; the costs of adequate R&D; the training of personnel and the fulfilment of strict requirements in terms of product standards and quality (OECD, 2013b). Upgrading a small firm's position in the value chain requires the adoption of a wider and more complex set of tasks. Small firms can also participate indirectly in GVCs as providers of bigger exporting firms (G20 report).

Greek exporting firms are small with varying productivity affecting export capability

The dominance of small firms in production generally reduces export capability, especially when a non-negligible share of firms operates in the informal economy. Companies remain small as incentives to grow are weak due to product market restrictions and deficient bankruptcy procedures (Bravo-Biosca et al, 2013). In Greece, as in the OECD on average, the highest share of exports is from large (250 employees and more) enterprises. Nonetheless, the share of Greek SMEs (defined as firms with 0-50 employees) in exports is higher than the OECD average (OECD, 2014a, Figure 2.8). SMEs represent 99% of firms in Greece and employ 80% of the labour force. While the degree of export orientation in Greek firms has marginally increased between 2008 and 2013 (from 8% in 2008 to 9% of turnover in 2013), the average level of exports by SMEs has declined over the same period.

Figure 2.8. **Exports by SMEs are relatively sizeable**

Percentage of exports of all exporting enterprises, 2011 or latest available year



Note: Countries have been ranked by the share of 0-50 employees.
Source: OECD (2014a), *Entrepreneurship at a Glance.*

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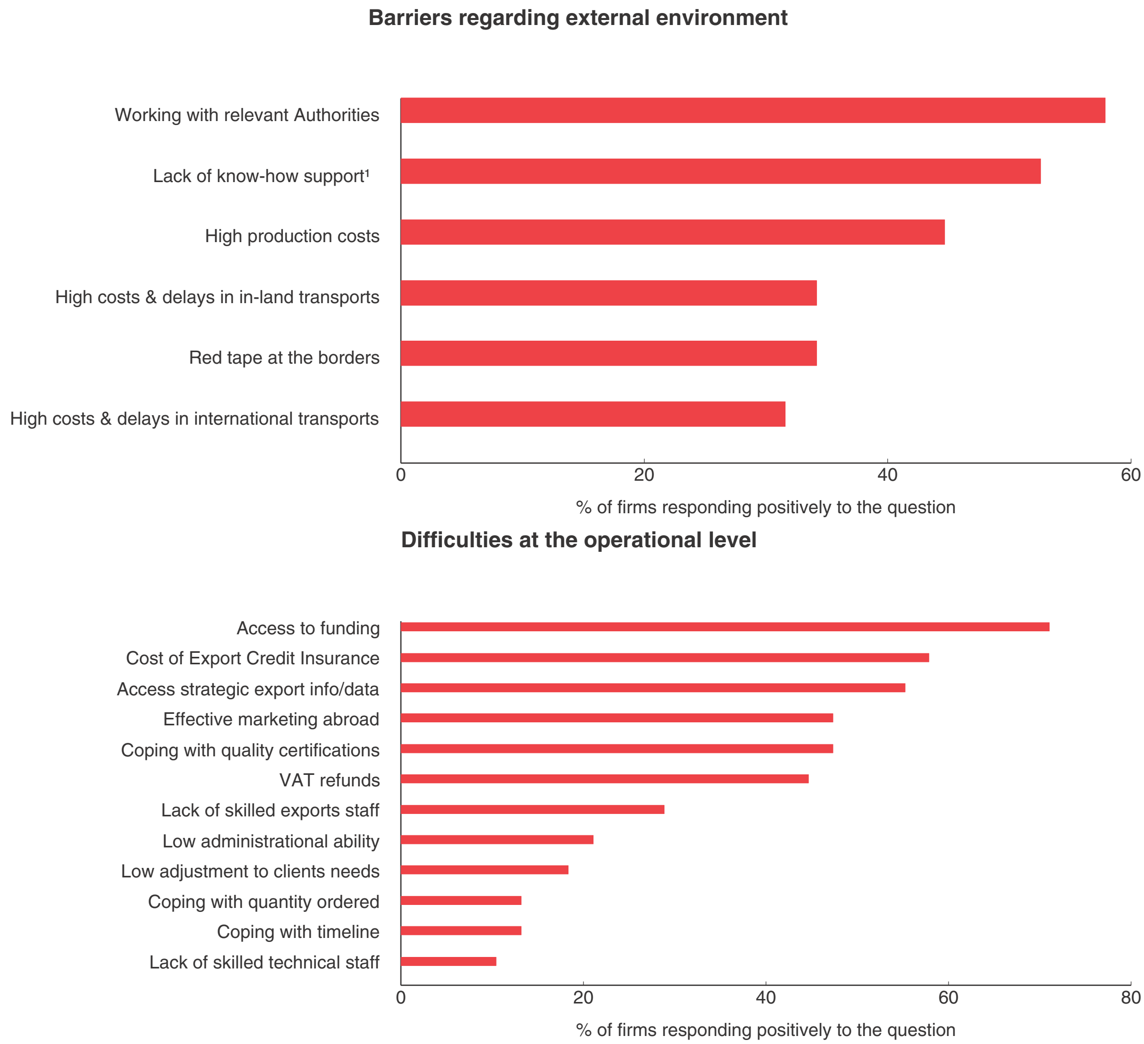
Survey results show that larger SMEs were more resilient during the crisis, they turned more to growth strategies and face limited liquidity problems. But smaller SMEs struggle to survive and 56 % continue to face severe liquidity problems (NBG, 2014). Manufacturing SMEs have the greatest export intensity. Almost 16% of SMEs are potential exporters, i.e. they do not currently export, but intend to export if certain obstacles were removed. The main obstacles are i) institutional inflexibilities such as excessive bureaucracy and inefficiencies in customs procedures, albeit the latter has been reduced notably by the introduction of electronic procedures ; ii) poor access to special financing for exports (such as trade credit); and iii) shortcomings in distribution networks and transport infrastructure (NBG, 2014; Panhellenic Exporters Association, 2015; Figure 2.9).

Small size also affects productivity and thereby competitiveness. A number of recent studies have shown that smaller firms tend to be less productive (OECD, 2014). Within a given sector, only firms with high productivity tend to engage in exporting. This is due to fixed costs associated with the penetration of foreign markets. Only the most productive firms manage to recover those costs if they become exporters (Melitz, 2003; Melitz and Ottaviano, 2008). In practice, such fixed costs could be related to the need to collect information about export markets, establishing commercial contacts, hiring multilingual staff or adapting products to be sold abroad (Arnold, 2015).

The literature also shows that young firms often experience fast post-entry growth, become more productive and some of them become successful exporters (Criscuolo et al, 2014, Altomonte et al, 2012). Young firms typically experience the “up-or-out” dynamics where some successful entrants enjoy fast post-entry growth while others leave the market after a short time (Haltiwanger et al., 2013; Anyadike-Danes et al. 2013).

While it is important to lower entry and exit barriers, post-entry growth is even more critical for SME growth. Policies that create a business environment where firms can easily enter (and exit) the market and young high-performing firms can thrive and grow should be assessed with particular care. Such policies include both “sticks” (i.e. regulations which only

Figure 2.9. **Barriers faced by exporting firms are still important**



1. Chambers of Commerce, Commercial Attaches etc.
Source: Panhellenic Exporters Association.

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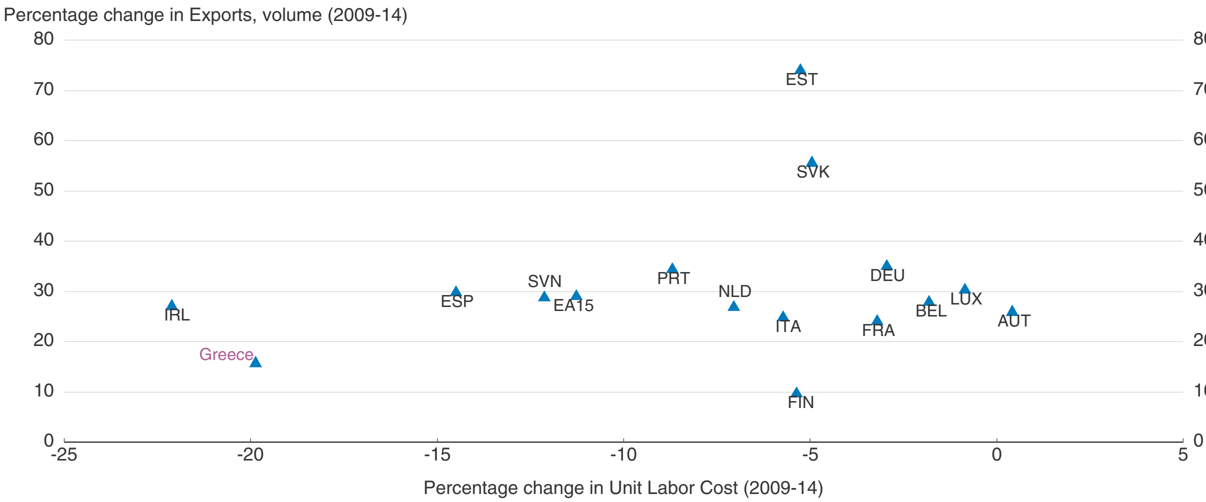
affect firms above a certain size) and "carrots" (i.e. support mechanisms for which only smaller firms are eligible). In this context, resources will not be "trapped" in small and inefficient firms, serving as a drag on productivity growth and innovation (Criscuolo et al., 2014). Further liberalising product markets and better bankruptcy procedures will help in this respect.

The decline in unit labour costs since the beginning of the crisis has restored cost competitiveness, but the response of exports has been sluggish due to severe liquidity constraints of exporters, lack of investment in export industries and in part because prices did not adjust as fast. With the exchange rate fixed, price adjustments to restore competitiveness need to take place within an internal devaluation. Ireland, Portugal and Spain, with a smaller drop in wages, achieved better export performance as their prices adjusted faster (Figure 2.10). Price competitiveness improved by 5% in Greece between 2009 and 2014 and by 6% and 8% in Portugal and Spain respectively (Figure 2.11). Non-cost competitiveness is also weak in Greece, as Greek goods exports are concentrated in low-technology products.

Figure 2.10. **Increased competitiveness boosts exports only slightly**



Source: *OECD National accounts database.*

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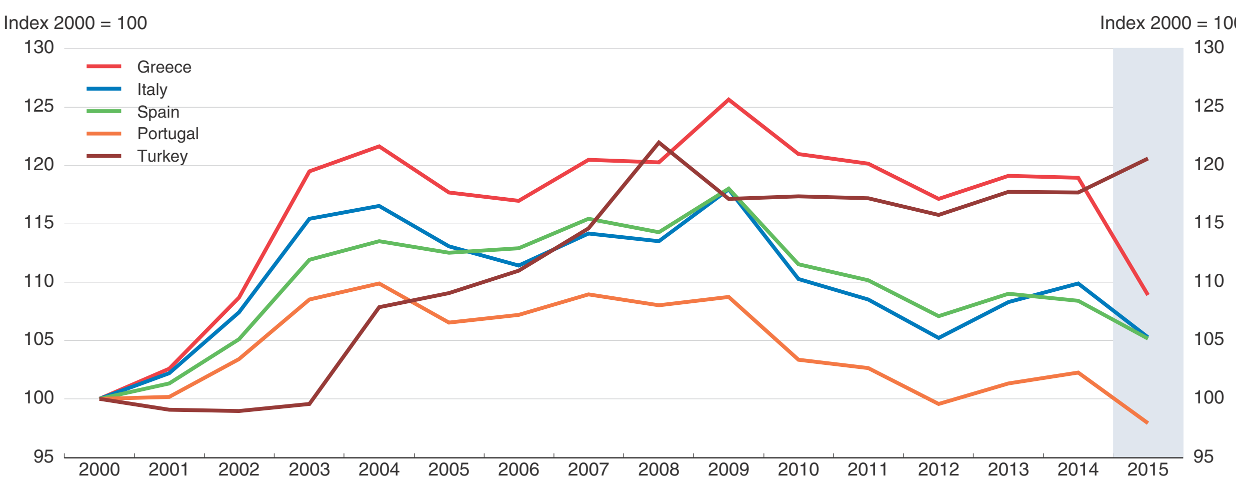
Figure 2.11. **Price competitiveness[1] has improved only marginally**



1. Measured as the relative export prices. A decline represents an improvement in competitiveness.
Source: Updated *OECD Economic Outlook 98 database.*

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The slow internal devaluation, or weak price adjustment, reflects several structural factors. First, most of Greece's exports of goods are in capital-intensive sectors and thus less sensitive to wage adjustments (agriculture, oil). Moreover, the two main exports of services (tourism and shipping) are not sensitive to wage decreases. According to (Arkolakis et al 2015), tourism is seasonal and lowering costs might not increase sales significantly in peak periods and is insufficient to increase them in off-peak periods. Regarding shipping, the costs faced are mostly sourced outside the country. Second, structural barriers and administrative burdens hamper export activity.

Policies to enhance export performance

In this section, the different types of structural barriers to exporting are discussed in more detail, as well as the relevant policy recommendations to overcome them. This includes export formalities, the business climate, regulatory barriers in product and factor markets that can restrain competition. In addition, factors such as infrastructure, access to finance or the legal system play a role. While recent reforms have mainly reduced labour market restrictions, reducing the large remaining barriers in product markets is particularly important for boosting exports.

Improving the business environment and competition

Many barriers still affect exports despite reforms in recent years (Figure 2.12). For instance, the cost and time involved in export procedures at the pre-customs and customs stages in Greece remain high. The border compliance formalities take on average 24 hours compared to 15 hours in the OECD and the cost is almost twice that of the OECD average (World Bank, 2015). The barriers to entrepreneurship as measured by the OECD PMR indicator also reveal that Greece is more restrictive than many OECD countries. This is particularly the case for the complexity of regulatory procedures and the administrative burdens –especially for issuing licenses and permits for operating a business- on start-ups that are higher than the OECD average. Remaining administrative burdens to business operation and weak competition hinder productivity and investment. The implementation of a 'national single window' for exports, as foreseen by the National Trade Facilitation Strategy (NTFS) for Greece, would act as a one-stop shop, specifically for export procedures (Hellenic Republic, 2012). The NTFS encompasses a broad range of reforms aiming to simplify export procedures, and its full implementation is expected to significantly alleviate the high cost and long time periods involved in exports.

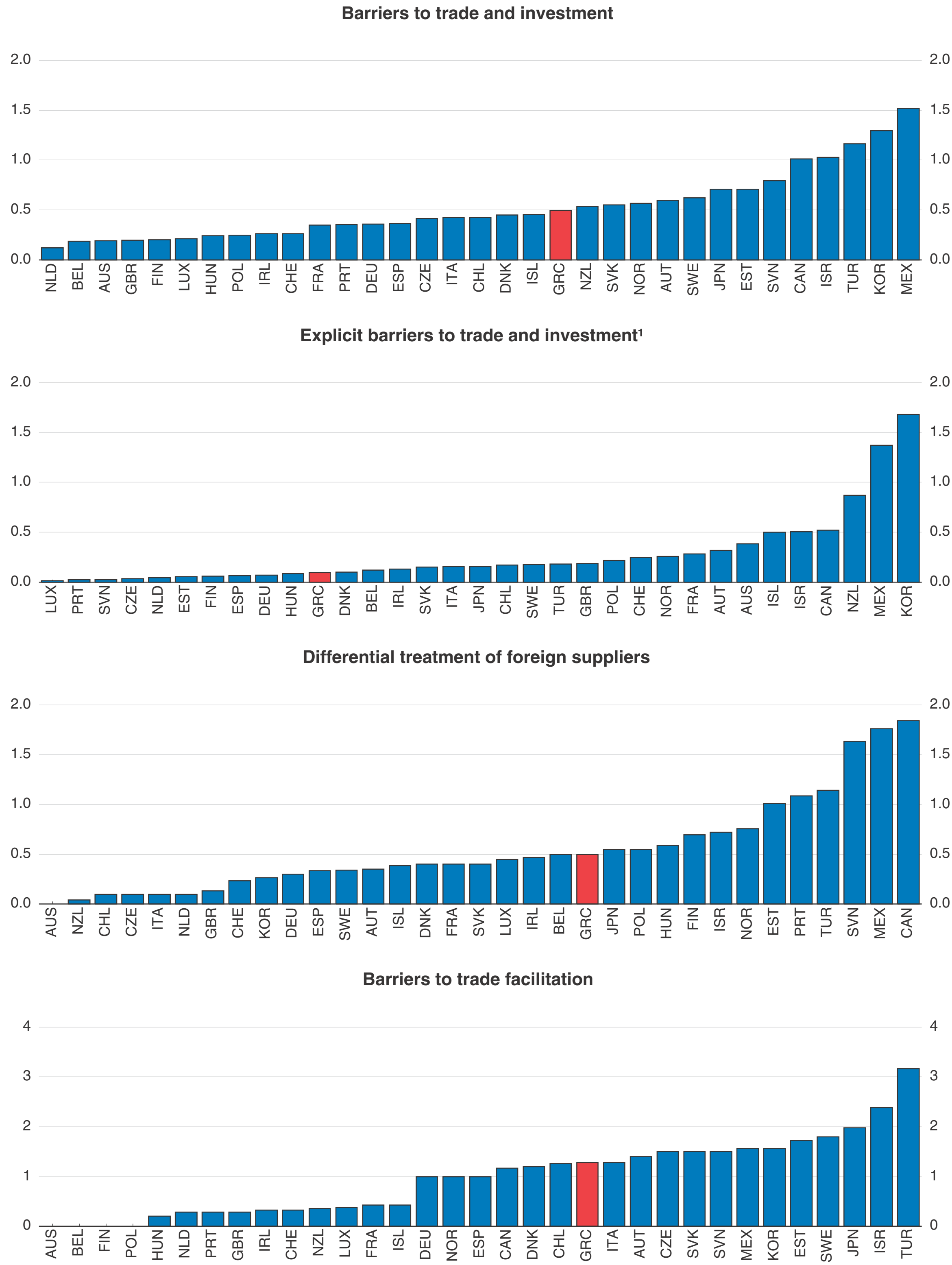
Moreover *Enterprise Greece*, the recently created export and investment promotion agency, deploys annually an Action Plan for exports promotion and is responsible for promotional activities, branding, organisation of conferences, and development of domestic and international networking. Export promotion can help solve information problems for local producers regarding tastes of foreign consumers, quality standards and regulations in other markets and business opportunities abroad that are hard to acquire for small firms (Lederman et al, 2010). In the case of Greece, more could be done to promote exports and help SMEs reach international markets. The new export promotion action plan aims at addressing several of the above mentioned issues.

More product market reforms would enhance competitiveness

Many markets in goods and services continue to face low levels of competition and high rents, which reduces export competitiveness. While Greece has made many reforms in recent years, its PMR indicator remains above the OECD average. Competitiveness is also influenced by the weak implementation of many reforms initiated over recent years aimed at liberalising or deregulating product markets (in goods and services, see Chapter 1). As many services are inputs to export products, inefficiencies in input markets also reduce competitiveness.

Apart from the PMR scores, regulatory burdens in product markets affecting exports can be measured by the OECD Services Trade Restrictiveness Index (STRI), which measures regulations that inhibit cross-border trade in services. For each sector, it covers five policy

Figure 2.12. **Many barriers to trade remain**



1. Explicit barriers to trade and investment refer to barriers to FDI and tariff barriers.
Source: OECD (2015), *Product Market Regulation database*.

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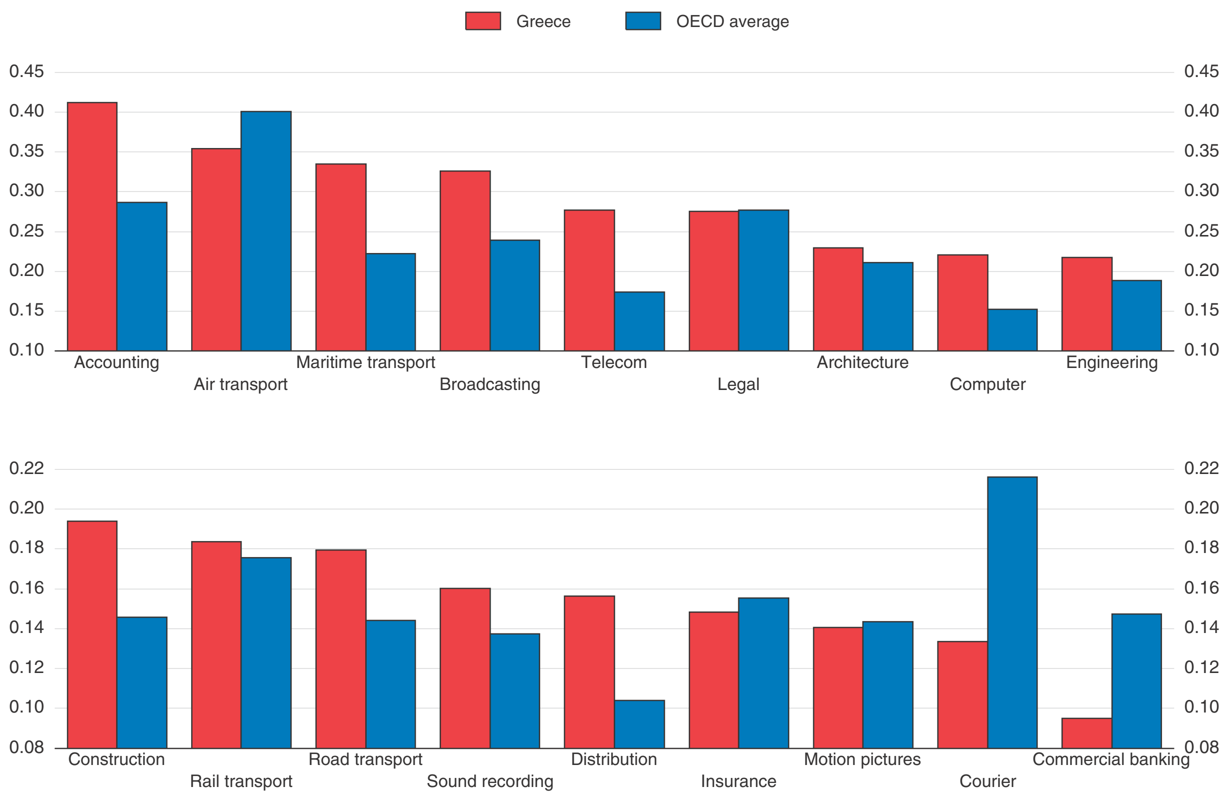
areas: restrictions on foreign entry, restrictions to the movement of people, other discriminatory measures, barriers to competition and regulatory transparency. In Greece, banking, courier services and motion pictures are the three sectors with the lowest STRI scores (meaning the most open sectors), while accounting services, air transport, broadcasting and maritime services have the highest barriers (Figure 2.13).

Figure 2.13. **Some sectors are still more regulated than the OECD average**

Service trade restrictiveness index[1]



1. The STRI index takes the value from 0 to 1, where 0 is completely open and 1 is completely closed.

Source: OECD (2015), *Trade database*.

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The barriers are complex. In accounting services, EU nationality is required to obtain a license to practice and there are restrictions on owning shares in auditing firms. Greece also restricts the ability of accountants to freely set their fees or to advertise their services. In maritime transport services, the relatively high score is largely explained by a limitation on foreign equity participation, at less than 50%. Furthermore, cabotage is not permitted for non-EU registered vessels. In the case of air transport, the score of Greece is below the sample average, which is the highest among the 18 sectors included. In application of the European Union (EU) regulation on air services, the air transport investment regime restricts foreign equity participation to less than 50% in relation to both domestic and international traffic. Several barriers to competition are also in place. Airport take-off and landing slots are allocated based on historical rights and the commercial exchange of slots is not allowed. Air carrier alliances, particularly code-sharing arrangements, are exempt from competition rules.

The reforms in some sectors (IT, construction, legal, accounting, architecture, engineering and telecommunications) between 2014 and 2015 have reduced their STRI. In IT, construction and telecommunication services, foreign equity limits on publicly-controlled firms were eased. As regards professional services, the changes in Greece's STRI scores reflect sector-specific reforms in relation to *barriers to competition*. In particular, restrictions on fee-setting have largely been removed across the four professions. Greece scores well regarding the *regulatory transparency* and the *other discriminatory measures*. This can be explained by additional reforms undertaken by Greece as part of structural adjustment programmes implemented with the international institutions (enacted before the first vintage of the indicators was completed). They included efforts to foster transparency and improve the overall investment environment, and the elimination of discrimination in public procurement markets (Nordas and Rouzet, 2015).

Further reforms could have large benefits.

Several studies have shown the potentially positive impact of a further reduction of barriers to goods and services. An OECD study shows that more restrictive countries import and export less services (Nordås and Rouzet, 2015). Restrictions on certain sectors have a greater impact on services trade than others. For instance, the largest impact of restrictions on services trade is for commercial banking and insurance. A significant impact is also found in air and maritime transport services, accounting, legal services and computer services. These services also enter the GVC at different levels, influencing integration. Trade restrictions in computer services, distribution services, telecoms, transport services, courier services, commercial banking and insurance services have a negative effect on trade in manufactured goods (Nordås and Rouzet, 2015).

Easing regulation in goods and services markets can raise exports. For instance, if the low performing EU countries implemented reforms to raise their PMR indicator score to the average of the top half of the best EU performers, trade intensity, measured as the trade to GDP ratio, within the EU would increase by 10%. The heterogeneity of regulations across EU countries is also a barrier to trade (Fournier, 2015a). Evidence also shows that within EU countries, in which drastic reductions on barriers to trade have been applied within the Single Market, stringent regulation in product markets reduces exports (Fournier, 2015a).

Heterogeneity in PMR also affects FDI as differences in regulations entail costs that affect firms' decisions to invest abroad (for instance, divergence of antitrust exemptions, barriers in service provision, network sector barriers and command and control regulation). The simplification of procedures also helps raise more FDI. A broad reform package that would remove the differences in regulations between countries by one-fifth would increase FDI by around 15% (Fournier, 2015b). These studies confirm the findings of the enterprise surveys discussed above, in that reducing barriers to doing business would make Greece more attractive to FDI, which at 2% of GDP is below the OECD average of 3%.

In Greece, reforms of policies affecting trade could have large gains (Box 2.1). Improving product market regulations and institutions to EU average levels are estimated to boost trade by 6% and 8% respectively. While these studies are subject to various caveats, they nevertheless point to substantial potential gains from reforms.

Gains from reforms can be particularly large in the relatively highly protected services exports. Greece's services trade is dominated by maritime transport. The shipping industry controls the world's largest merchant fleet and accounts for over 40% of total exports of

Box 2.1. How much could policy reforms raise exports?

Potential effects of policy changes on total exports of Greece can be large. Johansson and Olaberría (2014) present a methodology to assess the impact of policy changes on trade by adapting a model by Eaton and Kortum (2002), which combines a gravity equation with Heckscher-Ohlin relative endowments forces in determining trade, with policies and institutions. Gravity is a combination of variables that impose a cost on trade including market size, common border, common language, distance and the presences of a regional trade agreement. Factor endowments at the country-level include capital per worker, energy and stock of human capital. Finally, the policy and institutional variables include financial development, institutional quality, labour and product market regulations at the country level.

Applying the findings of Johansson and Olaberría (2014) to the Greek economy:

- Increasing human capital (as measured by average years of schooling) from the current level (10.3 years) to the average of the European Union (10.6 years), could raise total Greek exports by 3% (Figure 2.14).
- Increasing capital per worker from the current level (180 000 constant USD) to the average of the European Union (285 000 constant USD) could raise total Greek exports by more than 5%.
- Reducing product market regulation (PMR) from the current level (1.74) to the average of the European Union (1.42), could raise total Greek exports by around 6%.
- Finally, improving the quality of institutions (as measured by the index of Rule of Law the Worldwide Governance Indicators [WGI, 2015]) from the current level (67) to the average of the European Union (91), could raise total Greek exports by more than 8%.

Figure 2.14. **The potential effect of changes in policies on total exports can be large**

Note: The effect on aggregate exports is measured as follows: $\Delta Exp_{Greece} = \beta \Delta Policy_{Greece}$ where ΔExp is the change in total exports, $\Delta Policy$ is the change in policy in Greece, and β is the coefficient for the respective policy as reported by Johansson and Olaberria (2014).

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Source: OECD calculations.

services. The second most important export category is travel, which is also reliant on efficient transport infrastructure and services. In maritime services, Greece scores higher (more restrictive) than the average of the 40 countries included in the STRI database. Measures fostering competition in the freight transport sector would lower costs and improve efficiency in shipping times, thereby enhancing its international competitiveness.

A robust estimation of the link between STRIs and trade in maritime transport services, suggests that the performance of the shipping sector could be further boosted by easing entry requirements into maritime services. A reduction in the STRI of 7 basis points by removing the foreign equity limits for non-EU nationals would (everything else equal) raise maritime exports by over 8% over time (Nordas and Rouzet, 2015).

Time for exports and imports are also important for competitiveness. Time for shipping goods is a function of infrastructure and geography, but also of regulation of ports, airports, customs procedures, and transport and logistics services. Time for exports and imports is positively correlated with the STRI for maritime transport, road transport and logistics services (Nordas and Rouzet, 2015). The higher the restrictions on these key services for seamless flows of goods across borders and within supply chains, the longer it takes to ship goods. On average, a ten basis points reduction in the STRI index for maritime transport is associated with 6% less time for exports. Reforms in time for export procedures would reduce the STRI index in maritime transport by 10 basis points via liberalizing cabotage and eliminating discriminatory port charges. This would -everything else equal- lower the time for exports by about 1 day. According to Hummels and Schaur (2013) one day in transit incurs a cost equivalent to between 0.6 and 2.1% *ad valorem* tariff, depending on the product. As Greece's exports are concentrated on price sensitive consumer goods, a tariff equivalent of this magnitude is a significant impediment to competitiveness.

Services liberalisation would also boost high-technology goods exports. Services, particularly those related to R&D, product design and development are crucial inputs into the high-technology manufacturing sector. A one basis point lower STRI index could raise high-technology goods share in exports by more than 15 percentage points. With an STRI index of 0.218 for engineering, Greece is close to the 40 country average. Reducing the index by 10 basis points, for instance by making it easier for foreign engineers to have their qualifications recognised and obtaining a license for temporary work in the country, would increase the high-technology share of manufacturing by 1.5 percentage points, everything else equal (Nordas and Rouzet, 2015).

The second round effects of liberalisation amplify the gains

Increased competition from the deregulation of services often improves the efficiency of services providers. Services such as R&D, engineering, design, financial services, transport services, insurance services, communication services, marketing and distribution services, are an essential part of any supply chain. Some services are embodied in the goods, some are bundled with the goods in the final market and some change the location or ownership of the goods. Therefore, it seems reasonable that restrictions in the services sector spill over to the manufacturing sector.

Many studies have shown an indirect effect of services liberalisation on firms' productivity in other sectors (Arnold et al, 2011a and 2011b; Fernandes and Paunov, 2012; Bas and Causa, 2013). Increased competition in upstream services can raise the performance of firms in downstream manufacturing industries through different channels: lower production costs, access to higher-quality services, positive foreign spillovers and access to new services (Bas, 2013). In particular, the liberalisation of transport and telecommunication is expected to reduce trade costs faced by exporting firms (Bas, 2013). Evidence shows that deregulation in the upstream services sector can increase both the probability to export and the export sales (Bas, 2013, Correa-Lopez, 2014). At the same time, firm characteristics such as age or size matter for the connection between regulation and exports.

Following Bas (2013), an empirical analysis was undertaken on around 3 400 Greek firms relating their export performance to the evolution of an indicator of regulation in network sectors (Daude and De la Maisonneuve, 2016). This indicator weights the level of regulation for each sector (energy, transport and communications) by the manufacturing industry's reliance of each input, and controls for different firms characteristics (age, ownership, size, etc.). The results show that liberalisation in network sectors so far (Figure 2.15) has raised Greek export performance since 2000, and additional liberalisation would further enhance exports (Box 2.2).

Some competition has been introduced in electricity. In December 2015, the Authorities agreed with the institutions on a plan that will separate the electricity transmission system operator (ADMIE) from the incumbent Public Power Corporation (PPC). At the end of the process, the Hellenic Republic will hold 51% of ADMIE, with a strategic investor (another TSO) holding 20%, and 29% on the stock market. This will create more separation of the system transmission operator from the main supplier. However, there is still significant market concentration in the wholesale and retail market on behalf of PPC and cross-subsidisation among different categories of customers reduces competition and raises prices (Figure 2.16). High energy prices may contribute to the limited success of internal devaluation in boosting exports (Pelagidis, 2014). Strengthening the operational and financial independence of the electricity regulator is essential. In the gas market, recent reforms -currently being implemented– have increased the consumers rights to choose suppliers. By increasing competition, the privatisation of the Piraeus and Thessaloniki ports and of the regional airports should also lower costs and raise efficiency.

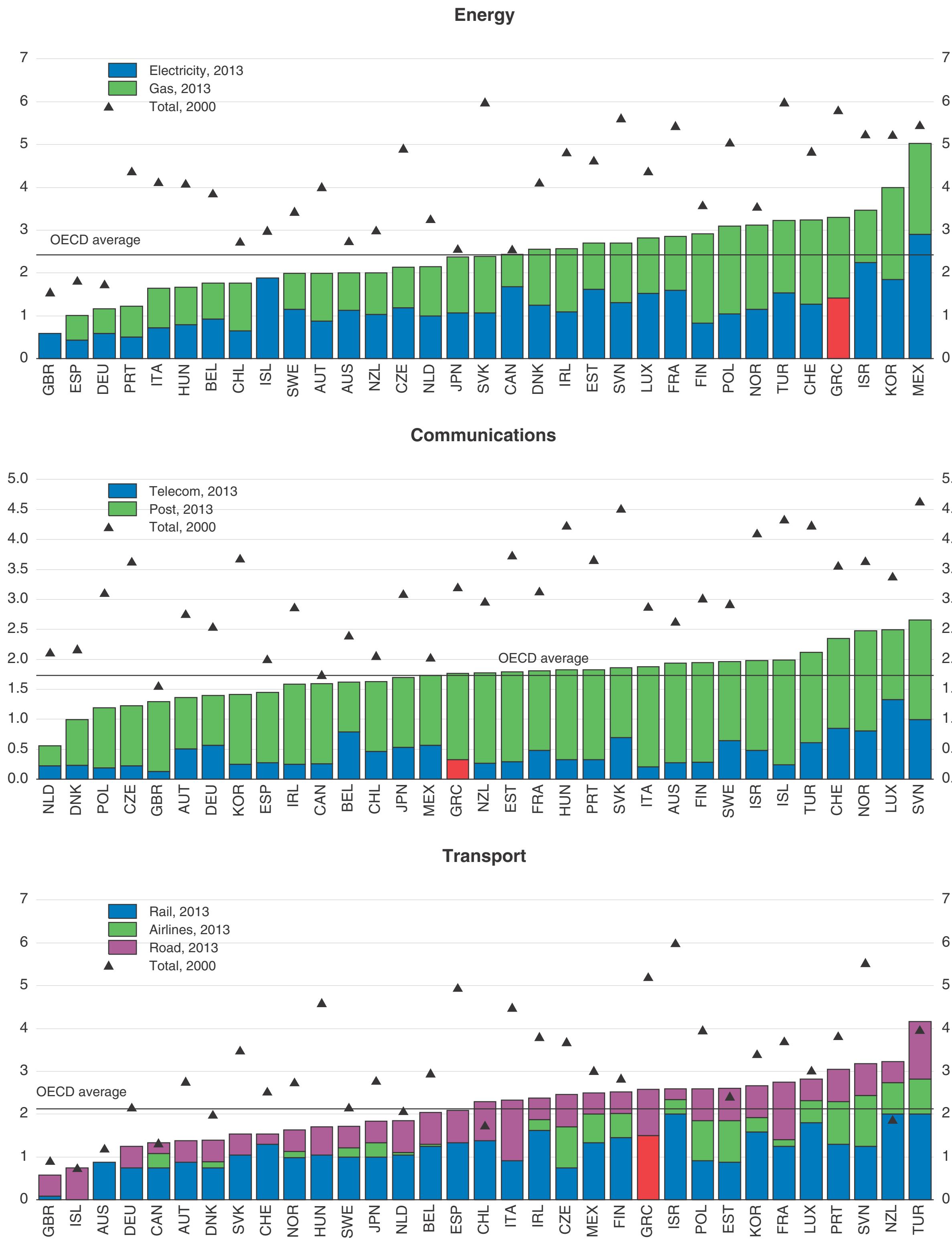
A greater use of renewables in energy production could also raise competition in the energy sector. Electricity generation is becoming less carbon intensive in Greece. The share of renewable energy sources used in electricity generation steadily increased from 5% in 1990 to 23% in 2013. The National Renewable Energy Action Plan (NREAP), elaborated in 2010 in line with the EU Renewable Energy Directive, outlines the policies and measures to achieve Greece's 2020 targets for renewable energy. It sets out targets of 18% to 20% of gross final energy consumption from renewable energy sources, 40% of electricity production from renewable energy sources, 20% for heating and cooling, and 10% for transport (EEA, 2014a).

More investment in infrastructure and logistics would boost exports

Greece faces many challenges regarding infrastructure. Total public and private investment in infrastructure is below the median in OECD countries (Figure 2.17, top Panel). It has decreased significantly over the past two decades from 2.1% in 1995 to 0.7% of GDP in 2013. Moreover, the quality of transport infrastructure could be improved (Figure 2.17, bottom panel). The gap is particularly important for railroad and, albeit to a lesser extent, road infrastructure. Reforms have been put in place to enhance the weak transportation sector, but the results have been mixed so far. They are promising in the maritime (both cruise and freight) sector, with the successful partial privatisation of the Piraeus port. However, there is still considerable scope for developing port activities as a gateway to the land transportation network, not just for Greece but for the entire region (OECD, 2013a) (see below).

Figure 2.15. **Regulation in some network sectors is higher than the OECD average**

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



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

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Box 2.2. **How deregulation in upstream services has an impact of export performance in downstream manufacturing industries**

Using data from the ORBIS database for around 3 400 firms over 10 years, an econometric model where the export sales are explained, among other determinants, by an indicator of regulation in network industries is estimated. The latter has been constructed by weighting the level of regulation for each sector (energy, transport and communications) – ETCR – by the manufacturing industry's reliance of each input (Daude and De la Maisonneuve, 2016). The indicator of regulation comes from the OECD index of regulation in each sector. The results presented here are robust to the choice of other dependent variables such as probability of exporting or export shares (see Daude and De la Maisonneuve, 2016).

The results of a pooled OLS regression indicate a negative and statistically significant impact of restrictive ETCR regulations on export turnover. The estimate is also significant from an economic viewpoint. An increase in the stringency of ETCR regulations by one point – which is slightly above the standard deviation among OECD countries in the sample period (0.84) – leads to a decline in exports by more than 11%.* Similarly, this estimate implies that if Greece were to move its ETCR restrictiveness index (2.55 in 2013) to the best performer in the OECD – the United Kingdom with a value of 0.79 in 2013 – export turnover would increase by almost one fourth. The results are similar -with a slightly larger impact of ETCR on exports- when including sector dummies to control for sectorial characteristics. Therefore, the results are robust to controlling for sectorial characteristics, which might be correlated with the ETCR variable – as this variable varies across sectors and time. The pooled OLS regressions might render a biased estimate of the ETCR effect, because of omitted firm-level variables that affect exports and are correlated with ETCR restrictions. Therefore, it is important to test the robustness of results. Columns 2, 3 and 4 in Table 2.1 provide some robustness checks by including firm time dummies which would account for unobserved common factors across firms, for example those related to the business cycle -as well as firm level fixed effects and sector fixed effects- which control for part of these potential biases. Overall, the estimates in Columns 2-4 show a significantly larger impact of ETCR restrictions on exports than the pooled OLS estimates. For example, the estimates in Column 3 imply that a one-point reduction in ETCR restrictions would increase exports by 35%. Column 5 shows that these results are robust in controlling for foreign ownership of the firm, the participation of foreign capital being associated with higher exports.

Table 2.1. **Baseline regression results**

Dependent variable: Export turnover (in logs)

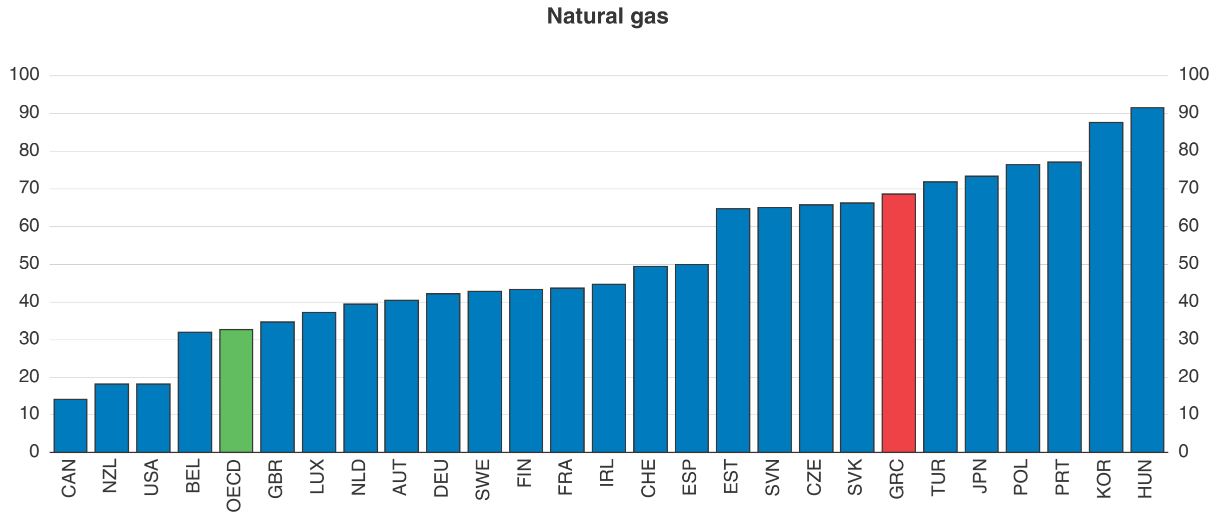
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Pooled OLS	Pooled OLS	Fixed effects	Random Effects	Random Effects	Fixed effects until 2007	Random Effects until 2007
ETCRN (lagged)	-0.120***	-0.193***	-0.433***	-0.417***	-0.417***	-0.394***	-0.388***
	(0.02)	(0.02)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
log(Age)	-0.181***	-0.190***	0.258***	0.194***	0.194***	0.340***	0.185***
	(0.02)	(0.02)	(0.04)	(0.03)	(0.03)	(0.04)	(0.03)
log(Employees)	1.024***	0.999***	0.313***	0.437***	0.435***	0.329***	0.678***
	(0.01)	(0.01)	(0.04)	(0.03)	(0.03)	(0.04)	(0.03)
Foreign owned					0.376***		0.331***
					(0.07)		(0.07)
Constant	3.657***	5.118***	5.457***	5.758***	5.761***	5.457***	5.761***
	(0.09)	(0.30)	(0.36)	(0.46)	(0.46)	(0.36)	(0.46)
Firm Effects	NO	NO	YES	NO	NO	YES	NO
Year Effects	NO	NO	YES	YES	YES	YES	YES
Sector Effects	NO	YES	NO	YES	YES	NO	YES
N	19 058	19 058	19 058	19 058	19 058	14 343	14 343

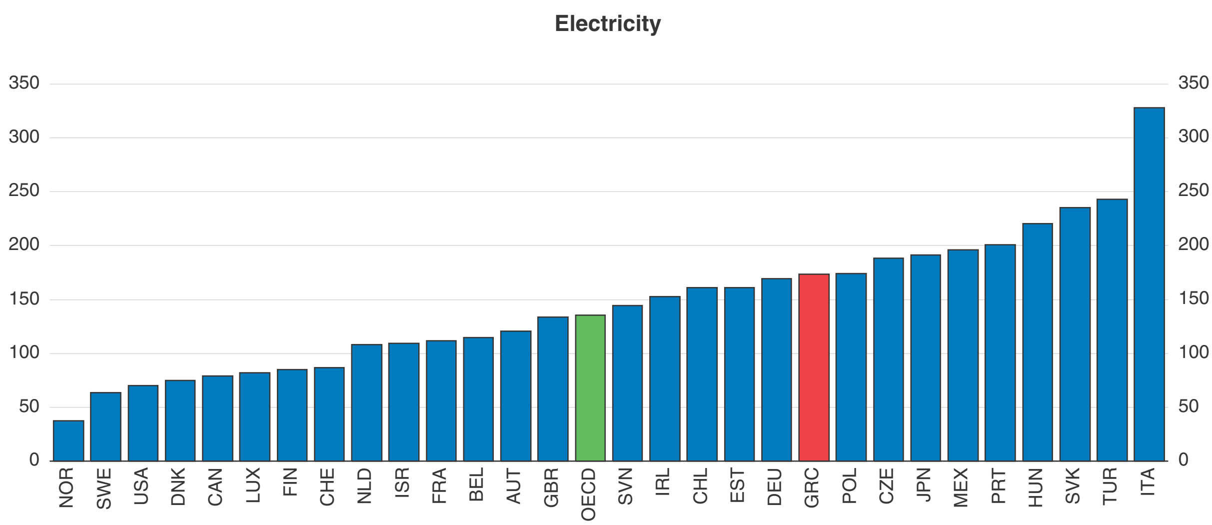
Notes: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.

*The semi-elasticity of ETCR on exports is given by exp(-0.120) - 1 = -0.11308.

Figure 2.16. **Energy prices for industry are high**

MwH, in USD PPPs, 2014 or latest available year





Source: IEA (2015) database.

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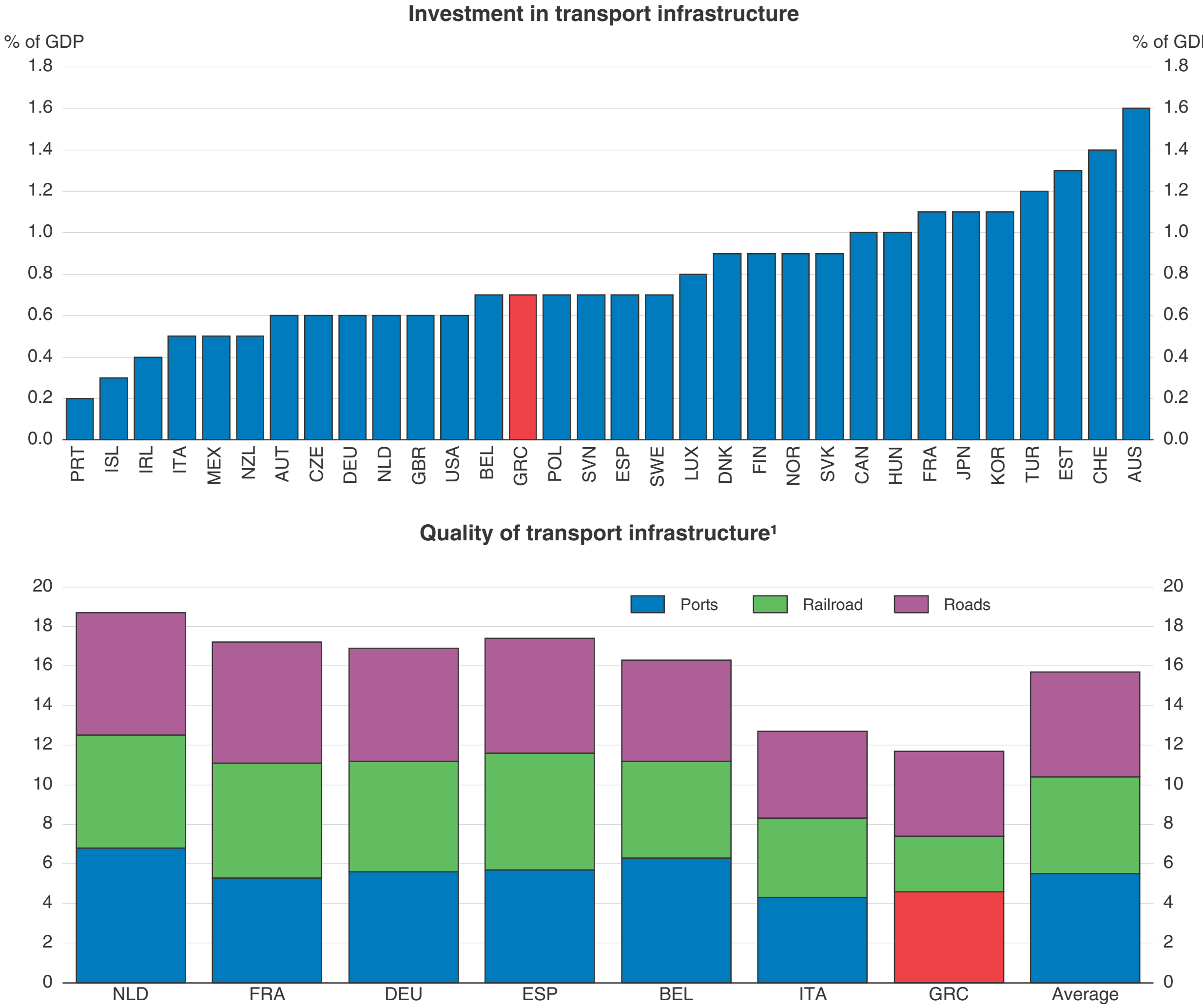
The entire logistics system of the country is important for the export activity. According to the World Bank Logistics Performance Index, Greece lags behind the OECD average in every aspect covered by the indicator (Figure 2.18), and its performance has decreased since 2007.

Despite limited fiscal space, weak credit and remaining structural rigidities, boosting investment in logistics is needed. One way forward would be to make better use of public land through concessions or privatisations to facilitate investment in logistics and infrastructure. The multiplier effect of these types of investments is estimated to be large (IOBE, 2012). They would help the tourism sector and facilitate export activity more generally. Further liberalising the network industries would also increase the quantity and quality of infrastructure investment (see below). Moreover, structural funds should be better exploited to boost investment in education, research and innovation, and information and communication technology to enhance skills and human capital.

Figure 2.17. **Investment and quality in transport infrastructure could be enhanced**



1. Each type of infrastructure is ranked between 1 and 7 according to executive opinion survey. [1 = extremely underdeveloped – among the worst in the world; 7 = extensive and efficient – among the best in the world].

Source: World Economic Forum, "*The Global Competitiveness Report 2015-16*".

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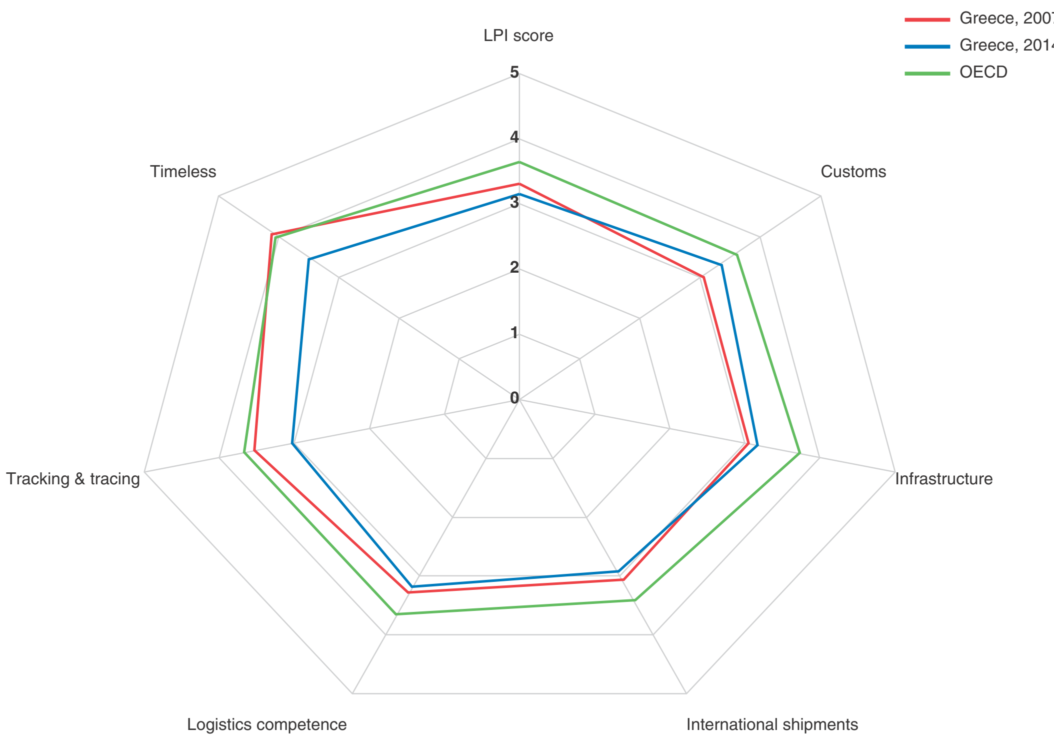
Public-private partnerships (PPP) would increase investment and operational efficiency if they brought private-sector expertise and capital to bear. PPP should not be used as a way to relax budget constraints. It is important that risk in these projects is correctly assessed and appropriately allocated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

Better skills would raise competitiveness

The ability of firms to move up the value chain into better products and higher profit margins depends largely on the skills of the labour force. While the number of people with at least upper-secondary education in Greece is roughly equivalent to the OECD average, those with tertiary education is lower. Moreover, according to the latest PISA assessment, the

Figure 2.18. **Logistics performance lags behind the OECD average**

Logistics Performance Index



Source: *World bank database.*

StatLink http://dx.doi.org/10.1787/888933337422

average performance of 15 year-old students is one of the lowest among OECD countries despite improvements since 2003. Raising the quality of education requires improving the quality of teachers by linking teaching evaluation to effective professional development, making schools more autonomous and accountable and introducing a performance evaluation system for universities (OECD, 2013d).

The development of skills during active life is also crucial. As a result of the ongoing evolution of technology and the continuing shift from manufacturing to services, job requirements are evolving rapidly. This means that workers increasingly need to acquire new skills and upgrade existing ones, for which access to lifelong training is crucial. This would help workers adapt to new tasks and technology and will boost productivity.

Lack of financing is a major constraint

Empirical evidence suggests that access to financing helps export performance (Bardakas, 2014), and ability to reallocate resources from non-tradables to tradables. Exporting firms are more dependent on external financing compared to non-exporting firms, given the perceived riskiness of exporting activities and the practical difficulties of dealing with payments (Muûls, 2008). Firms active in industries with access to less expensive credit tend to export more (Manova, 2013). Credit constraints prevent firms from getting involved in exporting, as financing conditions affect firms' decision to enter the export markets (Berman et al, 2010).

Credit has fallen since the start of the crisis, both to total business and SMEs. According to the ECB SAFE survey, in April-September 2015, 30% of Greek SMEs declared access to finance as their main problem (ECB, 2015). The situation is probably worse following the capital controls since June 2015. The survey also indicates that SMEs faced stronger quantitative supply restrictions in Greece than in other euro area countries. The percentage of rejected applications for bank loans, though declining in the last four rounds of the survey at 16% in April-September 2015, still remained well above the euro area average (9%).

The credit crunch in Greece reflects domestic financial system weaknesses and the risk premium from high country risk. SMEs also face higher credit costs than larger domestic companies. It is therefore not surprising that access to finance is regarded as the most important problem of Greek SMEs (ECB, 2015). Before the crisis, constrained bank lending supply had a disproportionately large effect on small Greek firms given their heavy reliance on bank lending -70% of their total financing compared to 49% in the euro area on average between 2003-08 (ECB, 2013). Heavy reliance on bank lending is consistent with the dominance of micro-enterprises in the total SME population of the country, with small local firms lacking awareness of alternative financing instruments, or skills that can allow them to tap the capital markets or other sources of financing (Nassr and Wehinger, 2015).

Trade finance and support programmes

Greek commercial banks offer a number of specific trade finance products, such as letters of credit, suppliers' guarantees, discount financing and documentary credits. Export-oriented SMEs also benefit from a number of official programmes both at local and international levels (Nassr et al, 2016). In addition, various lending facilities, guarantee programmes and other public support programmes are offered by the Greek government to local SMEs in cooperation with the European Investment Bank Group and the European Commission. However, the take up of these schemes has been low. This reflects partly the lack of awareness of some of the micro-enterprises about the availability of such schemes and their inability to go through the process and meet the requirements of such funding (Nassr et al, 2016).

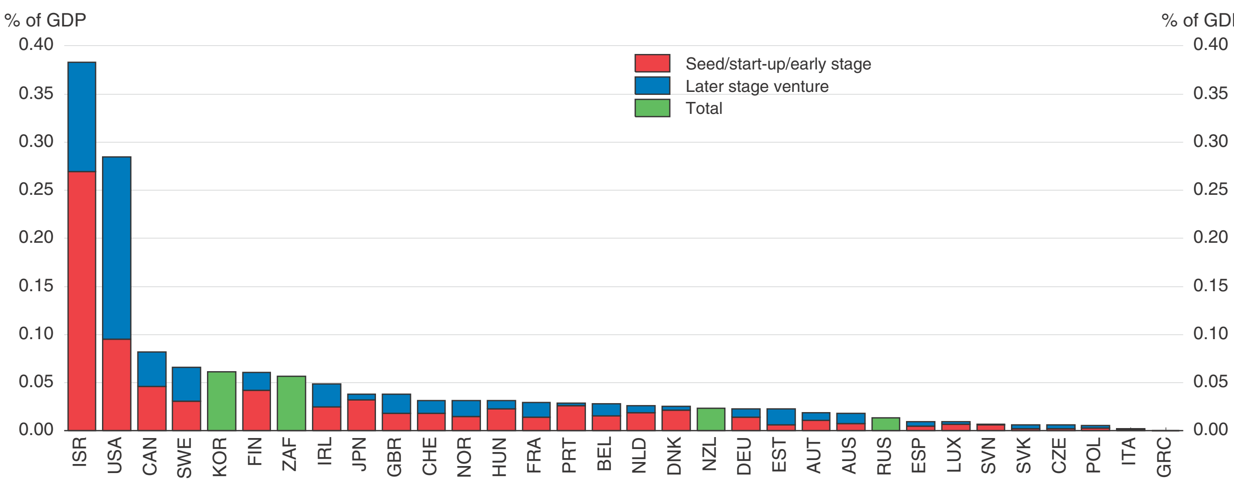
The creation of a development bank to help SME funding is currently under discussion. It could improve access to credit for SMEs by systematically organising all the funding opportunities available from both national and international sources, as recently done in France. The Institution for Growth (IfG)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

An under-developed equity financing environment

The share of SME financing provided through equity markets in Greece is currently very small, particularly when it comes to risk financing. Venture capital investment has also been historically underdeveloped in Greece and could be driven by risk aversion of venture capitalists given the prevailing macroeconomic situation and, most importantly, the uncertain economic and political environment (Figure 2.19). Total venture capital investment for 2014 was just USD 260 000, by far the lowest in the OECD (OECD, 2015b). A number of public support programmes, such as the JEREMIE initiative of public-private co-financing funds, try to catalyse private investor participation in venture capital financing and should be pursued (OECD, 2015c). The creation of a venture capital system with important direct links to university research and innovation could be a way to boost entrepreneurship and promote the creation of high value added products and innovative SMEs.

Figure 2.19. **Venture capital investment is low**

As a percentage of GDP, 2014 or latest available year



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

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Securitisation and capital market financing

Simple, transparent and standardised securitisation of SME loans (and other liabilities such as leasing) can be seen as a market-based shortcut to indirectly foster SME financing, 'unclogging' the bank lending channel by transferring SME credit risk partially from originators to investors and achieving capital relief. Despite an increase in total securitisation issuance in the past years, only a small minority of transactions was actually placed with investors, with the majority of deals being retained for repo funding with the ECB throughout the period when such collateral was eligible for central bank repo refinancing (Nassr et al., 2016). Capital market financing conditions remain particularly difficult for Greek SMEs. The loss of trust that came as a consequence of the uncertain macroeconomic and political environment has contributed to the inability of Greek companies to tap capital markets (Bank of Greece, 2015). Interestingly, the only corporates to have successfully issued corporate bonds in the capital markets since 2012 have been export-oriented companies or companies with important share of export activity (Titan, Fage, OTE, Hellenic Petroleum and Frigoglass).

SMEs should be encouraged to use more market-based finance. Raising their awareness of other available financing options and equipping them with the skills required for tapping public markets can enhance their participation in these markets (Nassr et al, 2016). The creation of a system around those markets and instruments can support small-sized transactions and accompany SMEs at the issuance/listing and in the aftermarket. Capital market financing is promoted currently in Europe under the umbrella of the Capital Markets Union. In Europe and in Greece, the support of public sector on SME securitisation is through credit enhancement (guarantees) provided by the EIF (EIB Group). In any case, Capital market financing should be seen as complementary to, rather than a substitute for, banking lending.

Other policies affecting competitiveness and exports

Improving the tax system

The lack of efficiency of the tax system is also a constraint for firms. A quarter of SMEs declare that increased tax obligations a key problem (NBG, 2014), and that corporate income tax is too high. At 29%, the rate is actually above the average of OECD countries. It affects cost competitiveness of firms and the pre-tax return expected to engage in exports. It can also impact the productivity of firms in many ways. Higher corporate taxes may reduce incentives for productivity-enhancing innovations by reducing their post-tax returns. They may also reduce the investment in physical capital by increasing its cost, which in turn will affect total factor productivity (TFP). High corporate taxes can also have a negative impact on competition, for example by reducing incentives for risk-taking or for productivity-enhancing investment (Arnold et al, 2011c).

The tax wedge on labour (including personal income tax and social security contributions) is also higher that the OECD average. Despite the current difficult fiscal situation which limits the possibility of cutting taxes, there is nonetheless some room of manoeuvre to make the tax system more supportive of exports by improving tax administration and fighting tax evasion.

Many firms also complain that the delay to get VAT refunds is very high. Reducing this delay will be achieved by a better tax administration. Currently, the Greek tax administration fails to produce efficient services to businesses. Its performance can be improved by reinforcing the transparency and independence of the tax administration while developing compliance assessment and risk management.

Reforming the judicial system

Judicial procedures in Greece are complex and take a long time. The August 2015 MoU with the creditors includes some proposals to modernise and enhance the efficiency of the judicial system and some actions, such as the adoption of the new Civil Code, have already been taken (Chapter 1). The three-year strategic plan should encompass key actions aimed at enhancing judicial efficiency, speeding up judicial proceedings and addressing shortcomings in the functioning of courts such as, but not limited to, collecting information on the situation of the courts, computerisation, developing alternative means for dispute resolution, such as mediation, rationalizing the cost of litigation and improving in court functioning and court management. Increasing the efficiency of the judiciary is a key element to improve the business environment as it reduces uncertainties and transaction costs.

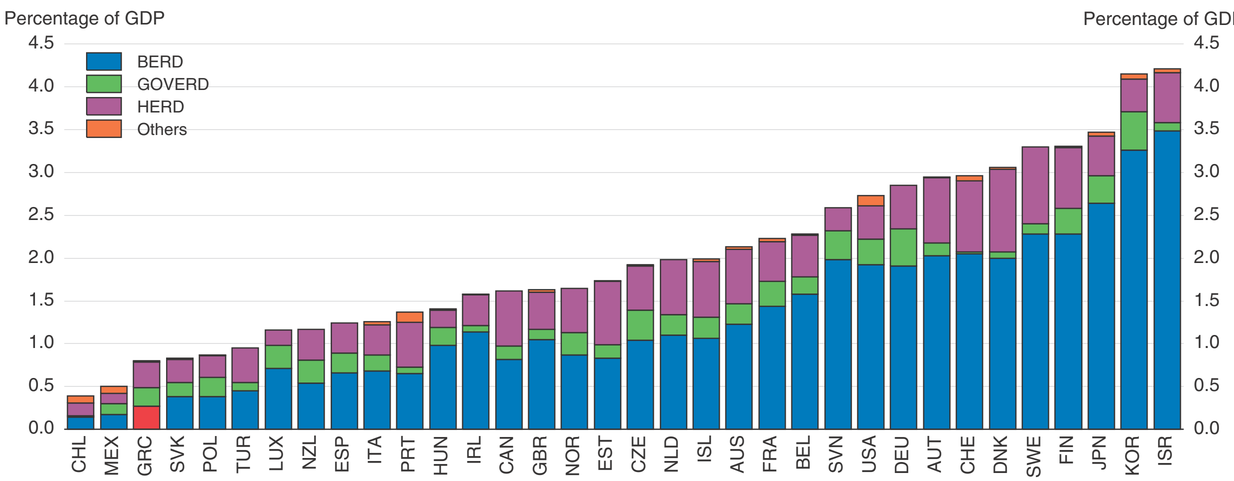
Boosting innovation

Innovation is one important requirement for SMEs successful participation in global value chains (OECD, 2008). Upgrading a small firm's position in the value chain is typically linked to the take-up of a wider and more complex set of tasks. Investment in Knowledge Based Capital (KBC) is important to allow firms to increase their productivity. Moreover, investment in ICT is essential to allow SMEs to reach more easily foreign markets via, for instance, e-commerce.

The low integration in value chains and share of high tech products in exports can reflect weak innovation. Greece ranks very low regarding patent and trademark applications. This can in turn be influenced by low spending on R&D. At 0.8% of GDP R&D expenditure is well below the 2.5% average of OECD countries (Korea and Israel spend more than 4%, see Figure 2.20). The larger part of R&D expenditure (around 37%) occurs in universities whose links with industry are weak in Greece. This is one of the highest shares among OECD countries.

Figure 2.20. **Gross domestic expenditure on R&D is low**

2013 or latest data



Source: OECD (2015), *Science and technology database*.

StatLink http://dx.doi.org/10.1787/888933337449

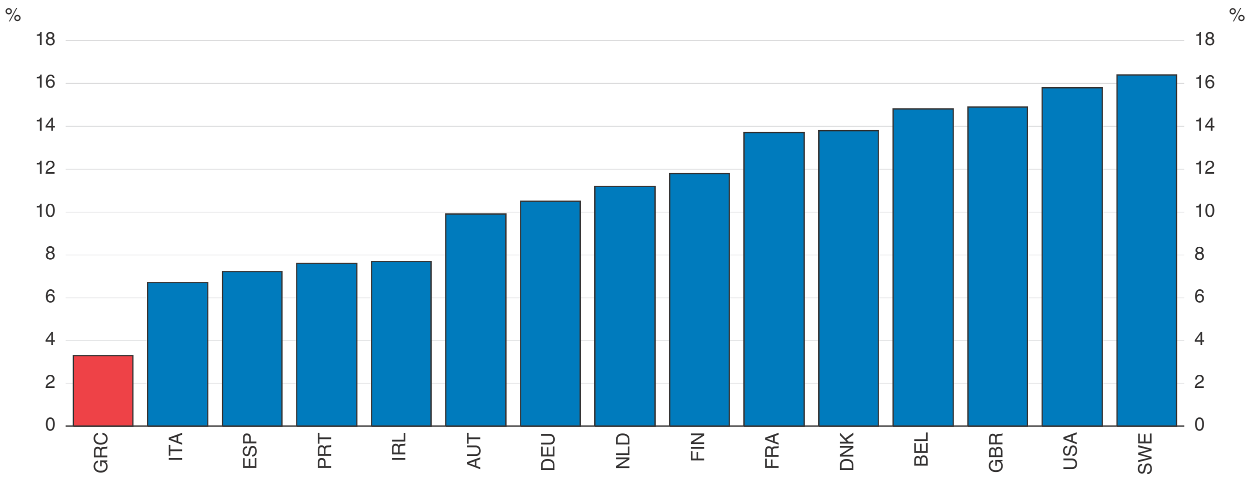
Innovation, through the creation of new or significantly improved products (goods or services), process or methods, is a key determinant of economic growth (OECD, 2010). In the context of GVCs, innovation translates into upgrading and the efforts of companies to increase the value they create and capture in GVC activities (Gereffi, 1999). Upgrading allows firms and countries to move to industries and activities that create more value added.

The recent literature has emphasised the growing role of KBC as a source of productivity gains, and the contribution of efficient resource allocation to this process (Andrews and de Serres, 2012). Innovation and more broadly investment in KBC are essential to enable product differentiation which will lead to gains in market shares. KBC comprises three main categories: computerised information, innovative property and economic competencies. In many areas Greece could improve its investment in human and knowledge-based capital (Figure 2.21). According to PISA 2012, Greek performance in science, reading and mathematics proficiency at age 15 is also one of the lowest in OECD countries despite some improvement in mathematics and reading.

Policies to support the upgrading process are largely similar to policies to enhance productivity (OECD, 2013b). The returns to investing in KBC are partly shaped by structural policies, which influence the ability of economies to reallocate scarce resources to firms that invest in KBC. Well-functioning product, labour and venture capital markets and

Figure 2.21. **Investment in KBC is low in Greece**

Percentage of business sectors' gross value added, 2013



Source: OECD (2015) *Science, Technology and Industry Scoreboard.*

StatLink http://dx.doi.org/10.1787/888933337452

bankruptcy laws that do not overly penalise failure can raise the expected returns to investing in KBC by improving the efficiency of resource allocation competencies (Andrews and Criscuolo, 2013). The Government should strengthen product market competition to enhance firm's productivity and foster a dynamic business sector that allows new, innovative firms to emerge, experiment and grow.

It is important to encourage the use of the new opportunities offered by information and communications technology, including the Internet, to overcome some of the barriers highlighted above, including by directly engaging with foreign markets through electronic commerce. Greece's investment in ICT is one of the lowest in OECD (OECD, 2013c) and is a drag on firms' productivity and ability to export. Regarding e-commerce, Greece lags behind with only around 10% of firms engaged in sales via e-commerce compared to 21% in OECD countries (Figure 2.22). Moreover, among the few having engaged in e-commerce, only around 40% have engaged into international trade.

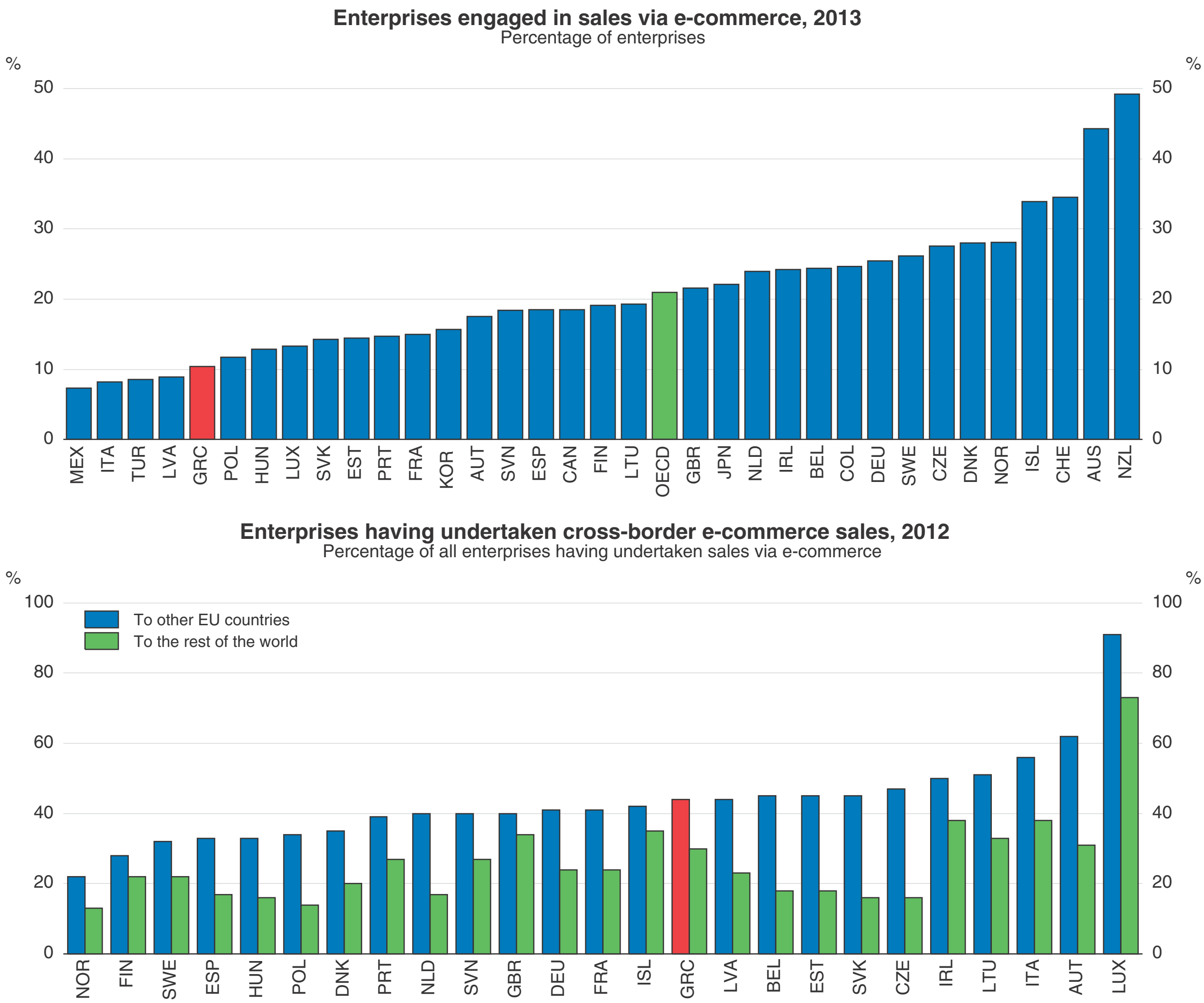
The Internet dramatically reduces the cost of finding buyers, both globally and domestically and ICT services enable SMEs to outsource some costly activities, reducing their costs and barriers to trade (G20 report). New ICT tools can facilitate cross border e-commerce and participation in global markets for smaller and new entrants. Enhancing access to ICT networks and enabling SMEs to engage in e-commerce can be an effective way for small firms to go global and even grow across borders where they can become competitors in niche markets. Investing in broadband infrastructure would help the development of e-commerce.

Some sectors and products' comparative advantages could be better exploited

Tourism as a source of growth

Tourism has always been a major source of growth in Greece and is one of the few sectors which have not suffered too much from the crisis. The total contribution of travel and tourism to GDP was 16% in 2011. In 2012, the tourism sector accounted for 18% of

Figure 2.22. **E-commerce is not well developed**



Source: OECD, based on *Eurostat, ICT database*, *Information Society Statistics database*, June and July 2015.

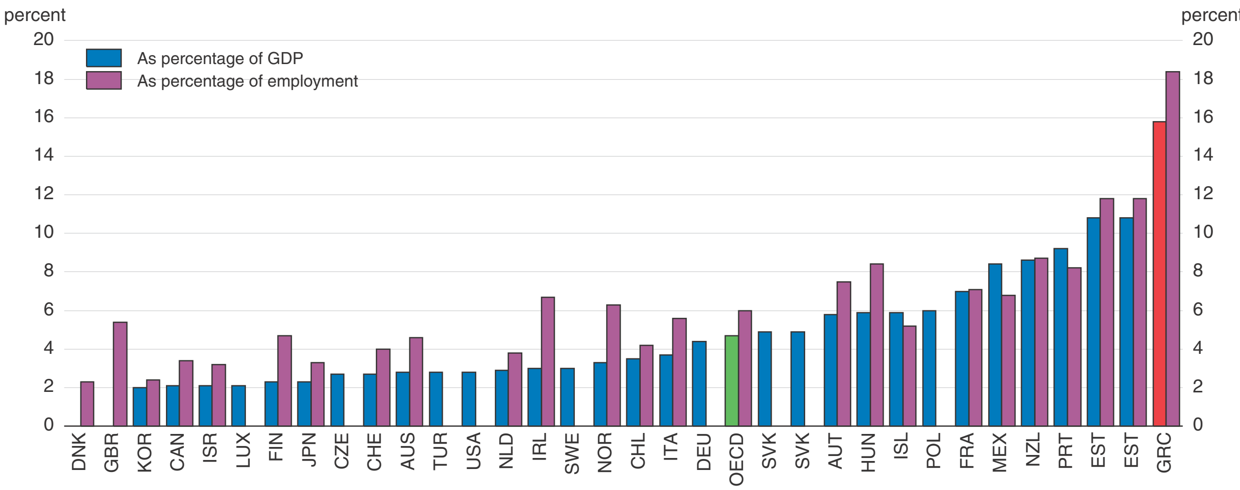
StatLink http://dx.doi.org/10.1787/888933337467

employment, and 14% of investment (OECD, 2014b) (Figure 2.23). The balance of income from tourism, at 4.4% of GDP, is the highest in OECD countries. Greece owns one of the highest capacity of bed places/inhabitants and the occupancy rate is also high (OECD, 2014b). Tourism has always been important for the Greek authorities (Box 2.3). In 2016 a New Investment Incentives Law is planned to be introduced, which will rely on small and medium sized projects combining high quality and value added tourism products. Meanwhile the National Strategic Reference Framework 2014-20 supports tourism SMEs to upgrade the quality of their services.

The arrival of tourists is little affected by prices, but depends more on non-price structural factors such as the infrastructure that supports travel activity in Greece (Gazopoulou, 2012). Moreover, due to the seasonal nature of the sector, it may be difficult to raise capacity during high season. Greece should ease the restrictions on cabotage and eliminate discriminatory port charges to facilitate tourism activities.

Figure 2.23. **Tourism represents a large part of the economy**

Contribution of tourism as percentage of GDP and employment, 2012 or latest year available



Source: OECD (2014), *Tourism trends and policies.*

StatLink http://dx.doi.org/10.1787/888933337476

Box 2.3. **Tourism governance and policies**

Tourism organisation and governance

Acknowledging the importance of tourism in the economy, the Greek government, in June 2012, separated tourism from culture to form an independent entity with extended responsibilities. In 2015, it became part of the Ministry of Economy, Development and Tourism. The Ministry is responsible for overall Greek tourism policy as well as the regulation, planning and programming of tourism development. Its regional offices are also responsible for licensing and auditing tourism businesses, e.g. accommodation providers, travel agencies, etc.

The Ministry supervises the Greek National Tourism Organisation (GNTO) and the Hellenic Chamber of Hotels. The GNTO is responsible for promotion and advertising campaigns, aimed at developing both domestic and inbound tourism. The Hellenic Chamber of Hotels (a public law entity consisting of all hotels and camp sites operating in Greece) is the state's institutional consultant as far as tourism and hospitality are concerned.

Tourism policies

The National Tourism Strategy aims at:

- Upgrading tourism products and services.
- Upgrading tourism infrastructure.
- Extending the tourism season.
- Enhancing attractive investment environment.
- Promoting new tourism products and undiscovered destinations.

In 2012, a range of legislative initiatives were adopted, including the recognition of thermal springs and the licensing of thalassotherapy (seawater therapy) and therapeutic centres, the establishment of the GNTO's Special Service for Promoting and Licensing Tourism Enterprises, a "one-stop-shop" for tourism enterprises, the simplification of the licensing procedure for tourism enterprises, the introduction of a new form of integrated tourism enterprise, the Complex Tourism Accommodation, which includes four-star or five-star hotels, special tourism infrastructure (e.g. conference centres, golf courses, spas) and tourist residences (villas), the liberalisation of the tourist guide profession and the simplification of procedures and the abolishment of limitations on the operations of travel agencies and car rental agencies.

Better exploiting the shipping industry

The comparative advantage in maritime transport could be further exploited by developing a transit centre for the Balkans and beyond. This requires making port services and transport infrastructure more efficient. With the important increase in world trade over the past 20 years due to, in particular, the penetration of Asian products, the global container traffic in Greece has been multiplied by seven between 1990 and 2011 (National Bank of Greece, 2013). In Europe, Mediterranean ports have gained market shares while Northern ports have lost them.

The privatisation of part of the port in Athens has substantially raised traffic. In 2009, the concession of Pier II of the Piraeus container terminal was given to the Chinese enterprise Cosco. Container traffic in Piraeus (90% of the Greek container market) more than tripled between 2010 and 2012, while traffic in other Mediterranean ports increased by only 20% during the same period. In 2011 Greek ports received around 4% of Mediterranean container traffic, an increase from the 1.5-2 % in 2008-10. The level of capacity, infrastructure and equipment in the port of Piraeus is higher than in ports of similar size in Europe. The Thessaloniki port (the second port by size) is less well equipped. The value added from the projected increase in container handling in Greek ports is estimated to rise by 2.5% of GDP in 2018 with an expected creation of 125 000 jobs (NBG, 2013). The planned development of a "dry" port in Piraeus will further benefit the shipping activity. New investments are needed in Piraeus to benefit fully from its untapped potential.

The development of port activity not only depends on new investments in ports but also on a better quality of road and rail infrastructure. For example, the Piraeus port is not connected directly to the rail network. This could be done through using EU structural funds. Moreover the full privatisation of the Piraeus port, as agreed in the August 2015 MoU, is needed to increase its competitiveness and allow it to gain further market share.

Firms in the agricultural sector are small and not well integrated in GVCs

In the agricultural sector, Greece has considerable scope to develop brand products and export more processed products. For instance, Greece is the third largest producer of olive oil (11% of the world production) after Spain (40%) and Italy (14%), but only 27% of Greek production reaches the stage of labelled/branding, compared with 50% in Spain and 80% in Italy. The remainder, and 70% of exports, is sold in bulk (NBG, 2015). Greek olive oil is of good quality, but Greece does not take full advantage of it.

The main problems are: olive oil producer costs are rather high mainly because of the small size of farms and the low productivity of workers; the mills are small and lack the optimal technology for efficiency and the small size of bottling and labelling companies makes it difficult to have a successful promotion of products (NBG, 2015). Greece could strengthen the competitiveness of its olive oil industry by reinforcing the vertical integration of production. In particular, larger farms (or more efficient cooperatives) could operate at lower cost and mount marketing and export strategies. Moreover, better organization along the value chain (including the stages of processing, branding and distribution) could lead to the distribution of branded products of standardised high quality (NBG, 2015).

Olive oil is not the only agricultural product that Greece could develop. Greece is already exporting many products in Europe and is increasing its market share in the United States. The main exported products are vegetables, fruits, olive oil, dairy products, fresh seafood, canned fruits, olives, raisins, wine, and tomato products (Enterprise Greece). The growing demand of healthy foods should be exploited.

Recommendations on boosting export performance

Key recommendations

- Ease regulations in network industries and strengthen the capacity and independence of regulatory agencies.
- Fully operationalise the 'national single window' for exports, as foreseen by the National Trade Facilitation Strategy.

Further recommendations

- Boost investment by front loading the use of European structural funds, and exploit better available public land through concessions to develop investment in logistics.
- Ease the remaining barriers to trade and investment that prevent Greece to expand its exporting activities, such as limitation on foreign equity participation in maritime services or airport regulations.
- Fully implement the new export promotion action plan to promote exports and help SMEs reach international markets.
- Further reduce regulatory procedures and administrative burdens on startups to enhance productivity and investment.
- Liberalize cabotage and eliminate discriminatory port charges to reduce time for export.
- Reduce restrictions to competition in sectors such as manufacturing to increase export competitiveness.
- Improve the investment in human and knowledge-based capital to allow upgrading in the GVCs, in particular in SMEs.
- Enhance access to ICT networks and enable SMEs to engage in e-commerce to allow small firms to participate in global trade.
- Promote a venture capital system with important direct links to university research and innovation to boost entrepreneurship.

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