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Greece has made substantial progress towards controlling public finances since the early 1990s, correcting fiscal imbalances within the framework of convergence programmes. The general government deficit declined by around 15 percentage points of GDP during the 1990s, falling to below 1 per cent of GDP in 2000. The fiscal improvement was aided by strongly rising revenues, and since the mid-1990s, by lower debt interest payments. By contrast, primary current expenditure has continued to drift up. The debt-to-GDP ratio, though falling since 1996 to its current value of about 100 per cent of GDP, remains well above the 60 per cent Maastricht ceiling, despite sizeable privatisation proceeds. Fiscal policy has become less restrictive since 1998, moving to a neutral stance in 2001. On a cyclically adjusted basis, net lending narrowed only slightly between 1998 and 2001 (by around 1 percentage point, compared with 12½ percentage points between 1990 and 1997). However, budgetary outcomes up to 2000 have been close to, or even outperformed, the initial targets, reflecting mainly positive surprises on the revenue side.

#### **Budgetary developments in 2001**

The improvement in the budget continued in 2001, with the general government balance estimated to have recorded a small surplus of 0.1 per cent of GDP – for the first time in decades – albeit somewhat below the targeted surplus of 0.5 per cent of GDP (Table 6; Box 1). The cyclically-adjusted budget balance (excluding receipts of about 0.4 per cent of GDP from the sale of mobile phone licences), however, remained largely unchanged at around –0.4 per cent of potential GDP in 2001, implying a broadly neutral fiscal stance. The adoption of a tax package in November 2000, introducing reductions in personal and corporate income tax<sup>23</sup> and amounting to around 0.4 per cent of GDP, was largely offset by enhanced revenue from more efficient tax collection methods (through the computerisation of the tax system) and further progress in the containment of tax evasion.

#### Fiscal prospects for the period 2002-04 and medium-term fiscal issues

The 2002 Budget<sup>24</sup> and the 2001 updated Stability Programme<sup>25</sup> (Table 7) target a general government surplus of 0.8 per cent of GDP for the year. The envisaged fiscal outcome is substantially lower than initial forecasts of 1.5 per cent

Table 6. **Budget plans and outcomes**Million euros

	20	000	2001		2002
	Budget	Outcome	Budget	Estimate <sup>1</sup>	Budget
Central government					
Current expenditure	33 162	34 377	35 969	35 985	36 637
(per cent of GDP)	27.9	28.3	27.7	27.6	26.2
of which: Salaries and pensions	12 059	12 406	13 081	13 261	14 123
Goods and services	1 993	2 106	2 211	2 256	2 239
Grants and subsidies	5 157	5 164	5 628	5 592	5 914
Interest	9 450	9 9 1 4	9 714	9 714	8 951
Payments to EU	1 291	1 401	1 579	1 559	1 579
Net current revenue <sup>2</sup>	31 211	33 392	36 028	35 734	37 453
(per cent of GDP)	26.3	27.5	27.8	27.4	26.8
Current revenue	32 150	34 257	36 977	36 684	38 920
Direct taxes	10 829	13 682	14 318	13 641	14 618
Indirect taxes	18 330	18 621	20 221	19 621	20 666
Non-tax revenue	2 990	1 954	2 438	3 422	3 636
Transfers from the EU Tax refunds	217 -939	134 -865	171 -949	170 -949	201 -1 467
Tax returnds	-939	-000	-949	-949	-1 467
Investment budget balance	-3 639	-4 156	-4 329	-4 329	-4 863
Budget balance (administrative basis)	-5 591	-5 141	-4 270	-4 580	-4 047
(per cent of GDP)	-4.7	-4.2	-3.3	-3.5	-2.9
Acquisition of equities	1 966	1 692	1 849	1 849	1 908
National accounts balance (per cent of GDP)	<b>-3 624</b> -3.1	<b>−3 449</b> −2.8	<b>-2 421</b> -1.9	<b>-2 731</b> -2.1	<b>-2 139</b> -1.5
Memorandum items:					
<b>Surplus of public entities and other adjustments</b> (per cent of GDP)	<b>2 230</b> 1.9	<b>2 161</b> 1.8	<b>3 037</b> 2.3	<b>2 832</b> 2.2	<b>3 298</b> 2.4 <sup>3</sup>
General government balance (per cent of GDP)	<b>−1 394 −1</b> .2	-1 288 -1.1 <sup>4</sup>	<b>616</b> 0.5	<b>101</b> 0.1	1 159 0.8

<sup>1.</sup> Estimate at the time of next year's Budget.

Source: Ministry of Finance.

of GDP in the 2000 Stability and Growth Programme, and of 1.3 per cent of GDP in the first draft budget announced in October 2001. The downward adjustment reflects the weaker-than-expected international environment, which led the government to lower its forecasts for output growth in 2002, <sup>26</sup> as well as the introduction of a new package of tax measures aiming to boost the economy and employment – the

<sup>2.</sup> Excluding tax refunds.

<sup>3.</sup> The surplus of social security funds and other public entities amounts to around 3.2 per cent of GDP.

<sup>4.</sup> The outcome for 2000 was revised later to –0.8 per cent of GDP, reflecting revisions in the surplus of public entities, while the outcome for the central government remained unchanged.

# Box 1. Implementation of the 2001 Budget

Fiscal developments in 2001\* were less favourable than originally projected. Shortfalls in tax revenue (equivalent to 1 per cent of GDP), following a weaker-than-assumed output growth in 2001 (4.1 per cent compared with initial forecasts of 5.0 per cent), have reduced the estimated general government surplus to 0.1 per cent of GDP, compared to the target of 0.5 per cent of GDP set in the 2001 Budget and the 2000 Stability and Growth Programme of Greece. The fiscal underperformance would have been worse had it not been for the additional revenues from the sale of mobile phone licences (around 0.4 per cent of GDP), not included in the 2001 Budget. Without such one-off receipts, the general government balance would have been in a small deficit.

Direct tax revenue fell by around ½ per cent of GDP relative to the budget target, with a slippage in corporate tax revenue more than offsetting a better-thanexpected performance in personal income tax revenue – despite the reduction in the highest marginal tax rate (from 45 per cent to 42.5 per cent) and an increase in the exemption threshold by 4½ per cent, embodied in the November 2000 tax package. The shortfall in corporate tax receipts reflected both lower profitability of Greek firms and technical reasons related to the corporate income tax collection system. In addition, lower interest rates on bank deposits, along with a shift from bank deposits to repurchase transactions (which were not taxed until end-2001) reduced the revenue from the taxation of interest income. Indirect tax revenue also fell below the target. Value added tax (VAT) revenue, however, increased broadly as budgeted - at a pace exceeding consumption spending because of improved tax collection procedures. But there was a significant shortfall (by more than ½ per cent of GDP) in the revenue from capital transfers, reflecting a sharp decline in the activity on the Athens Stock Exchange in 2001 and a reduction, by 50 per cent, in the tax rate imposed on the corresponding transactions. The slippage on overall tax revenue was partly offset by higher than expected non-tax revenues (exceeding the budget target by nearly 34 per cent of GDP), mainly proceeds of the mobile phone licenses and higher than-anticipated dividends from public enterprises.

Regarding expenditure, the budget performed broadly in line with expectations. Expenditure on salaries and pensions exceeded its target marginally (by around 0.1 per cent of GDP) while expenditure on grants and subsidies undershot initial projections (despite agricultural subsidies being somewhat higher than budgeted). Finally, the public investment programme has been implemented without deviations from the budget target.

<sup>\*</sup> On the basis of the estimates at the time of the 2002 Budget (presented to Parliament in November 2001).

Table 7. The 2001 Update of the Stability and Growth Programme (2001-2004)

	2000	2001	2002	2003	2004		
	As a per cent of GDP						
Fiscal account	'						
General government balance	-0.8	0.1	0.8	1.0	1.2		
Total revenue	46.3	46.4	45.7	45.3	45.1		
Current revenue	42.5	42.0	41.8	41.6	41.5		
Total expenditures	47.1	46.4	44.8	44.3	43.9		
Current primary expenditure	32.7	32.7	32.3	32.3	32.3		
of which:							
Government final consumption expenditure	15.4	15.4	15.1	14.9	14.8		
Social transfers	16.3	16.0	16.3	16.5	16.8		
Interest payments	7.0	6.2	5.5	5.1	4.7		
Gross fixed capital formation	3.7	3.8	3.9	4.0	4.2		
Primary surplus	6.2	6.3	6.3	6.1	5.9		
Debt of general government	102.8	99.7	97.3	94.4	90.0		
		nges					
Macroeconomics assumptions							
Real GDP growth	4.1	4.1	3.8	4.0	4.0		
Total employment	-0.3	-0.1	0.8	1.3	1.5		
Unemployment rate	11.2	10.4	10.0	9.2	8.4		
Private consumption deflator	3.1	3.0	2.8	2.7	2.8		
GDP deflator	3.4	3.2	3.1	3.0	3.0		
Unit labour costs	1.3	1.9	2.5	2.4	2.8		
Nominal GDP growth	7.6	7.4	7.0	7.1	7.1		

Incorporating changes to the December 2001 version of the updated Stability and Growth Programme arising from subsequent revisions to data for the years 2000 and 2001.
 Source: Ministry of National Economy.

impact of which is only partly offset by a downward revision of around 0.2 per cent of GDP in the primary current expenditure. The enacted tax package is in addition to a three-year (2002-04) package of social support measures, which accompanied the draft budget for 2002 (Box 2).

The Budget forecasts a central government deficit of 1.5 per cent of GDP in 2002 together with surpluses of the social security funds (and other public entities) amounting to around 3.2 per cent of GDP. The projected improvement in the fiscal outcome owes largely to a reduction in interest payments, while primary expenditure is projected to decline only slightly as a percentage of GDP. However, the Budget includes a shift in the composition of primary expenditure towards investment, reflecting attempts to restrict consumption expenditure, improve management of resources, and boost development and employment, in line with

## Box 2. The new tax and social measures in the 2002 Budget

The 2002 Budget embodies a package of tax measures,\* within the context of a comprehensive reform of the tax system currently under way (discussed below), which aims to reduce some tax distortions and promote employment. The total cost of the package during the period 2002-03 is estimated at around € 0.7 billion (approximately ½ per cent of 2002 GDP). In addition, the budget contains a social support package, spread over the period 2002-04, the total cost of which has been set at € 2.5 billion (equivalent to around 2 per cent of 2002 GDP). The new measures include:

#### Tax measures (included in Laws 2990 and 2992 of 2002)

- a 20 per cent increase in the tax free threshold for all taxpayers and the abolition of the income bracket corresponding to the 5 per cent marginal tax rate for wage earners (estimated cost € 0.2 billion);
- a reduction of 1, 2 or 2.5 percentage points (i.e. from 35 per cent to 34, 33 or 32.5 per cent) on the tax rate on 2002 corporate income, hinging on an increase in employment by 5 per cent, 10 per cent or 12.5 per cent respectively in the same year (estimated cost € 0.2 billion);
- abolition of stamp duty (estimated cost € 0.4 billion) on certain categories
  of transactions including: private sector employees' payrolls (1.2 per cent
  shared equally by employees and employers), notification to public
  authorities of starting or changing corporation activity, and promissory
  note and bills of exchange;
- the imposition of a 7 per cent tax on the interest income from previously tax-exempt repos (estimated additional revenue around € 0.1 billion);
- a 50 per cent reduction in the tax on heavy oil (estimated cost € 0.04 billion).

#### Social measures

- an increase in the pension of farmers and support for low-income pensioners (estimated at around € 1.2 billion over three years). The primary agricultural monthly pension is set to rise by € 14.67 in January 2002 from its previous level of € 141.5 per month and by the same amount in each of the next two years. Similarly, the monthly allowance to low-income pensioners will be gradually increased to € 125.9 per month in 2004 from € 81.8 in 2001;
- an increase in standard unemployment benefits by 5 per cent, subsidies to the poor and the disabled, and allowances to low-income families with children (€ 0.6 billion). These include: i) an annual income allowance of € 293.5 to 587 to poor households; ii) monthly allowance of € 140.9 (for a maximum of 12 months) to long-term unemployed who are of low income and aged 45-65; iii) annual schooling allowance of € 293.5 to poor families with children; iv) a 10 per cent increase in allowances to disabled persons; v) a one-off grant of € 2 935 to families with three children; and vi) a 10 per cent increase in allowances to family units with many children;

#### Box 2. The new tax and social measures in the 2002 Budget (cont.)

- extension of family allowance to both working spouses (this applies only to civil servants and the estimated cost is € 0.6 billion);
- promotion of employment policies (estimated cost € 0.1 billion).
- \* The government has also introduced tax incentives for venture capital activity and temporary merger incentives.

the Stability and Growth Pact. Primary expenditure in the Public Investment Programme is set to grow by around 11½ per cent in 2002, reflecting an acceleration of the implementation of the projects under the third Community Support Framework (CSF III) and the preparation of the 2004 Olympic Games. On the revenue side, the budgeted growth in tax revenue is lower than that of nominal GDP (6.1 per cent compared with 6.9 per cent), because of the introduction of the new tax measures. Additionally, the 2001 Budget had provided for a further reduction, in 2002, of the top personal income tax rate from 42.5 per cent to 40 per cent and of the corporate tax rate on non-listed companies from 37.5 per cent to 35 per cent, in line with that of listed companies. Nevertheless, direct tax revenue is projected to be more buoyant than nominal GDP with an estimated growth rate of 7.2 per cent in 2002, assuming improvements in tax administration and in the collection of tax arrears. Once again, improved tax collection is expected to result in VAT revenue increasing faster than consumption spending. Non-tax revenues are also expected to make an important contribution to the budget (amounting to 2.6 per cent of GDP), arising from seignorage from the issuance of new coins in Euro and increased dividends from public enterprises.

The OECD's less buoyant projection for a general government surplus of 0.4 per cent of GDP in 2002 mainly reflects a lower degree of current expenditure retrenchment than projected by the authorities. The fiscal stance is assessed by the OECD to become somewhat restrictive in 2002, with the cyclically-adjusted overall balance moving to a small surplus of 0.2 per cent of potential GDP in 2002 from a deficit of 0.4 per cent in the previous year. Given the accommodative monetary conditions and the strong cyclical position of the economy, a tighter stance would be advisable in order to ensure a faster reduction of the still high debt-to-GDP debt and to stem risks of demand pressures, especially in light of the persisting inflation differentials *vis-à-vis* the Euro area.

For the years beyond 2002, the 2001 update of the Stability and Growth Programme (covering the period 2001-2004) projects that the general government balance will remain in surplus, reaching 1.2 per cent of GDP in 2004 (instead of 2 per cent previously envisaged)<sup>27</sup> (Table 7). This positive fiscal outlook results from a further decline in interest payments, while primary current expenditure is projected to remain broadly unchanged, as the envisaged reduction in government consumption is largely offset by the increase in social transfers. Current revenue, on the other hand, is projected to rise less quickly than nominal GDP, reflecting the first wave of tax measures taken in the 2002 Budget, as well as the expected implementation of more comprehensive reforms of the tax system in 2003. The ratio of the general government primary surplus to GDP is also projected to fall gradually between 2002 and 2004. High primary surpluses are essential to ensure a rapid reduction of the high public debt-to-GDP ratio in Greece, which remains well above the 60 per cent Maastricht ceiling. A sound fiscal position would provide greater scope for fiscal easing during cyclical downturns - given the 3 per cent of GDP deficit constraint specified in the Stability and Growth Pact<sup>28</sup> - and ensure a lower country risk premium. The role of automatic stabilisers in smoothing output fluctuations is especially important after the adoption of a single monetary policy with the other member countries following entry in the Euro zone. The use of automatic stabilisers (and recourse to discretionary fiscal policy) should be symmetrical in periods of economic deceleration and subsequent recovery. The asymmetric use of fiscal stabilisers was in fact one of the factors behind the deterioration in public finances during previous decades: the stabilisers were allowed to work during periods of recessions, building up debt, but not in expansions, with revenue windfalls being used for additional spending or tax cuts. Prudent fiscal policy making would require that any tax reduction be met by structural spending cuts.

Maintaining a sizeable primary surplus over the medium term will be a major challenge. In addition to fiscal adjustment fatigue, the prospective increase in budgetary costs stemming from an ageing population adds pressure on the primary balance. The recent OECD/EU projections exercise<sup>29</sup> shows such expenditure increasing by 12 percentage points of GDP between now and 2050, under current practices and in the absence of reforms. This is by far the largest increase for any EU country. Restraint in, and restructuring of, current primary expenditure and other reforms are indispensable for achieving the required surpluses to meet the debtratio target (see also Chapter III). However, some spending areas should not be curtailed, in order not to harm important social and distributional objectives. It needs to be stressed that in the absence of reforms to broaden the tax base, additional increases in tax rates could adversely affect incentives to work, save and invest. Empirical studies for the first part of the 1990s conclude that public spending is exogenously determined and then taxes are raised to meet the higher expenditure.<sup>30</sup> This finding reinforces the view that further fiscal consolidation efforts should principally rely on expenditure containment rather than tax increases.

In the updated 2001 Stability and Growth Programme, the government stated its intention to pursue important reforms in the areas of budgeting and expenditure management, at the level of both central government and the broader public sector, as well as to introduce systems of closer internal audit and of quantifiable targets and expenditure assessments. 31 As a first step in this direction, the 2002 Budget includes multi-year budgets by ministries covering the years to 2004. While tentative and not binding, the ministry-specific expenditure forecasts provide useful information about prospective developments and targets for 2003 and 2004. Containing spending pressures over the medium term will depend, of course, on the speed at which wide-ranging reforms are put in place in key public expenditure areas including health care, pension and public administration, as well as in the tax system. Such reforms need to be stepped up well before the expenditure pressures from an ageing population start rising. As discussed in Chapter III, efforts are already under way in reforming the health care system and improving the efficiency of public administration. Some steps were also taken through the package of tax measures accompanying the 2002 Budget (Box 2) towards a comprehensive reform of the tax system, with a major overhaul envisaged for 2003. As for pensions, the government has already tabled a draft law for a reform of the system before Parliament. Failure to achieve reform would lead to an uncontrolled rise in public debt, or entail large increases in taxes and contributions, thereby reducing potential growth and slowing the pace of convergence of per-capita incomes to the level of other EU countries (see also Chapter IV).

# Public debt developments and debt management

Budgetary adjustment since the mid-1990s helped establish a downward trend in the debt-to-GDP ratio. The fiscal consolidation strategy has been based on the maintenance of high primary surpluses, which, with the benefit of declining interest rates, high growth rates, and the acceleration of the privatisation in recent years, made possible the decline of the government debt ratio to an estimated 99.7 per cent of GDP in 2001 from 111.3 per cent in 1996 (Table 8).32 This outcome was further helped by changes in the composition of debt, particularly through the introduction of ten-year fixed-rate bonds in 1997, which reduced the government's heavy reliance on short-term borrowing. The realised debt reduction of around 11½ percentage points of GDP, however, was much lower than that implied by a cumulative recorded primary surplus of over 27 per cent of GDP during the period 1997-2001. Unfavourable "deficit-debt adjustments", including the revaluation of government debt denominated in foreign currencies (no longer a significant factor with the introduction of the Euro), debt assumption by the state on behalf of third parties, the issuance of military debt and acquisitions of financial assets, such as capital injections to public enterprises, have slowed the rate of reduction in the debt ratio.<sup>33</sup> A portfolio shift in the assets of the social security funds from government bonds to equities will also result in a discrepancy

As a percentage of GDP										
	1996	1997	1998	1999	2000	20011	20021	20031	2004 <sup>1</sup>	2005-10 <sup>2</sup>
Gross debt (end of period) Change in general	111.3	108.2	105.0	103.8	102.8	99.7	97.3	94.4	90.0	60.0
government debt General government surplus	12.4	7.6	5.5	5.4	6.3	4.1	4.2	3.5	1.8	$-0.6^3$
(+)/deficit (–)	-7.4	-4.0	-2.4	-1.7	-0.8	0.1	8.0	1.0	1.2	$4.8^{3}$
Deficit-debt adjustment	5.0	3.6	3.1	3.7	5.5	4.2	5.0	4.5	3.0	$4.2^{4}$

Table 8. Public debt developments

5.6

6.2

6.3

6.3

6.1

5.9

 $9.3^{5}$ 

5.3

4.2

Primary surplus required to attain the 2010 debt target

The underlying real growth and interest rate assumptions are, respectively, 3.4 per cent and 3.6 per cent.

Source: OECD; Ministry of National Economy.

between changes in the general government fiscal balance and the public debt.<sup>34</sup> The total of these adjustments amounted to about 20 per cent of GDP over the period from the end of 1996 to 2001, and would have been considerably higher had there not been significant privatisation receipts and securitisation revenues.<sup>35</sup>

The 2001 update of the Stability and Growth Programme foresees a decline in the government debt-ratio to 90 per cent at end-2004, from around 100 per cent in 2001. In the absence of debt-creating financial operations (which are not recorded in the Eurostat-definition of fiscal deficit but appear directly in the debt figures), however, and taking into account a projected average primary surplus of around 6 per cent of GDP between 2002 and 2004, the debt-to-GDP ratio should be reduced to around 80 per cent of GDP at the end of the period. Even more important, the persistence of sizeable discrepancies between changes in the debt stock and the general government fiscal balances could risk a breach of the medium-term target of reducing the public debt-to-GDP ratio to around 60 per cent by 2010, requiring significantly more ambitious primary surpluses. OECD calculations suggest that the 60 per cent debt target for 2010 could only be met with a yearly primary surplus of 9½ per cent of GDP, if deficit-debt adjustments at the

The 2001 Update of the Hellenic Stability and Growth Programme: 2001-2004 (incorporating subsequent revisions made by the Ministry of National Economy in light of revisions to data for the years 2000 and 2001).

<sup>2.</sup> Period average, except where otherwise indicated.

<sup>3.</sup> The calculations assume nominal GDP growth of 6 per cent.

<sup>4.</sup> Average deficit-debt adjustment over the period 2002-04.

<sup>5.</sup> The primary surplus was determined from the following basic formula for debt dynamics:  $(D/Y)_t - (D/Y)_{t-1} = (P/Y)_t + [(r_t - g_t)/(1 + g_t)] * (D/Y)_{t-1} + O_t$  where:

 $<sup>\</sup>left(D/Y\right)_{t}$  = government gross debt as per cent of GDP, at time t.

 $<sup>(</sup>P/Y)_t$  = government primary balance as per cent of GDP, at time t.

r<sub>t</sub> = real interest rate on government debt, at time t.

g, = real growth rate of the economy, at time t.

O<sub>t</sub> = other factors.

level implied by the 2001 update of the Stability and Growth Programme for 2002-04 were to continue beyond the end of the period.<sup>36</sup> This compares unfavourably with an estimated primary surplus of around 5 per cent of GDP in the absence of such adjustments.

# Debt management strategy

In addition to debt reduction, the government's debt management strategy in recent years has been focused on:

- improving the currency and interest composition of the outstanding debt stock by lengthening average maturity, smoothing the yield curve, the use of derivatives and other policy instruments. Within the broader aim of improving the debt dynamics, debt management has also focused on reducing government guarantees;
- increasing transparency and efficiency of the bond market, through improvements in primary and secondary markets of government securities, including the introduction of electronic systems and the establishment of active repos and future markets;
- improving the competitiveness and attractiveness of Greek government securities in the integrated Euro zone market, through the establishment of benchmark issues.

Between 1998 and 2001 (mid-year), the average residual maturity and duration of the domestic tradable debt rose by, respectively, 1.7 and 1.9 years (to 5.6 and 4 years), reducing the sensitivity of the budget to changes in interest rates.<sup>37</sup> This was achieved through the substitution of bonds for Treasury Bills, accounting in 2000 for around 83 per cent and 4½ per cent of total domestic debt respectively. In addition, in the past few years Greece raised funds through primary dealer auctions and syndicated bond issues, with maturities ranging from 3 to 20 years. The interest composition of the debt stock also improved over time, with fixed-rate securities (including T-bills), accounting for around 70 per cent of the debt stock in 2001, against less than 50 per cent in 1997.<sup>38</sup> High priority was also given to reducing the sensitivity of the debt to movements in the exchange rate, through cross-currency swaps and other derivative instruments. At the end of 2001, only 5.8 per cent of debt was exposed to foreign exchange risk, while the rest of the obligations were in Euros.

#### Tax reform

There have been no systematic tax reform programmes for many years. Instead, changes to taxation have been made in a piecemeal fashion, with legislation changing frequently, creating an environment of uncertainty for investment. This has led to a complex and non-transparent system, characterised by narrow tax bases and fairly high tax rates. Revenue raising has further suffered from the

practice of tax amnesties and bank secrecy for tax purposes. In general, there has also been a lack of strong and uniform tax enforcement, although in recent years considerable efforts have been undertaken to improve tax compliance as well as administration. This has been reflected in stronger revenue growth. Nevertheless, major and costly distortions remain. These are not so much related to the overall level of taxation, which is not high by international comparison, but to poor application of tax policies and to the uneven distribution of the tax burden.

Analysis of the tax system in last year's OECD Economic Survey of Greece concluded that there are numerous options to widen the tax bases and to reduce the higher and more distorting tax rates. For instance, the taxation of the various forms of income from financial capital is uneven and likely to distort saving decisions. Hence, the overall tax rate on income from financial capital should be equalised, while the current practice of using easy-to-administer withholding taxes could be continued. Moreover, the methods used for assessing income of the self-employed has meant that they have paid little tax in practice. Full and reliable book-keeping by the self-employed needs to be enforced to arrive at a more accurate income assessment and auditing.

Concerning the personal income tax base, the generosity of tax breaks, including for owner-occupied housing, needs to be reconsidered. This would provide an impetus to the development of the rental housing market, enhancing labour mobility, while at the same time reducing tax privileges for higher-income groups. A broadening of the tax base would allow a reduction in the strong progressiveness of the personal income tax, which in turn would help to reduce incentives for tax evasion. It would also allow a reduction of the high social security rates paid on labour income, that are likely to have adverse effects on labour demand and provide incentives to work in the underground economy.

There is also a wide range of tax incentives for the business sector that could be re-assessed and streamlined. Such incentives complicate tax administration and increase compliance costs. Moreover, the difficulty of targeting these incentives is likely to lead to a waste of resources. Tax incentives should in principle only be provided in the few areas where market failures are clearly demonstrated to exist. Additional revenues from base broadening could be used to harmonise the corporate income tax rate at a single relatively low rate. This would eliminate the current bias in favour of unincorporated businesses. Other issues which tax reform in the business sector should address include the taxation of environmental pollutants, which should provide the right signals for abatement. As regards lower levels of government, local governments should be given greater flexibility in setting property taxes, which are their main revenue source. This would narrow the gap between their revenue-raising and spending powers and allow sub-national governments to become more accountable and responsive to voters.

The government has indicated on various occasions<sup>39</sup> that it plans to introduce a comprehensive tax reform in 2002, which will aim at the simplification of the very complex present system; a more equitable distribution of the tax burden; the enhancement of the competitiveness of Greek firms; improvements in the functioning of the tax administration; and further containment of tax evasion. The planned reform is hoped to improve significantly the efficiency of the Greek economy and to reduce the administrative costs of collecting taxes and the compliance costs of taxpayers.

As a first step of reform, the government announced in its budget for 2002 a package of tax measures which came into effect on 1 January 2002 and which may entail budgetary costs of around ½ per cent of GDP (see Box 2 for details). The most significant measures may be summarised as follows:

- for all mergers and acquisition that will take place until the end of 2004, the corporate income tax rate for the first year after the merger will be reduced by 10 percentage points, while for the second year the reduction will be 5 percentage points; the measure seeks to promote corporate consolidation, to make firms competitive at a European level;
- the zero-rated bracket of the personal income tax schedule is increased by 20 per cent to € 7 400 for non-wage earners, and to € 8 400 for wage and salary earners;
- the stamp duty levied on the private sector employees' payroll has been abolished, together with stamp duty on a number of other transactions; this measure should reduce administrative red tape;
- previously tax-exempt income from repurchase transactions is now taxed at a rate of 7 per cent, bringing it closer to the 15 per cent tax on income from bank deposits;
- tax treatment of income from mutual funds investing in venture capital companies will become more favourable, in order to promote venture capital activity;
- for those companies that will increase employment in 2002, there will be a reduction of the corporate income tax up to 2.5 percentage points, in proportion to the extra employment that will be created relative to 2001.

The government expects that the above measures will improve the competitiveness of Greek firms. The tax package's positive effect on wage earners' disposable incomes – in particular for low incomes – is hoped to have a moderating impact on this year's collective bargaining agreements.

The package addresses some of the problems of the current tax system, such as the uneven taxation of capital income and the high cost of tax administration. It can be considered as a first step of a comprehensive tax reform which is

# Box 3. The proposed tax reform

Greece is considering a comprehensive reform of its tax system. In April 2002, a special Commission of experts submitted to the government a far-reaching reform proposal which covers all taxes levied by the central government and local authorities, as well as all taxes levied on behalf of third parties, including the Social Security Funds. Social security contributions proper were addressed: these will be addressed in the planned reform of the social security system. The proposals have been discussed with social partners, but detailed proposals have yet to be put before Parliament.

# Objectives of the reform proposals

- simplification of the tax system and reduction of administrative and compliance costs;
- removal of features which impact negatively on international competitiveness:
- improvement in resource allocation, especially of capital;
- shift in the tax burden to less mobile capital assets, to minimise capital outflows;
- a more equitable tax system.

#### Major reform proposals

#### Income tax

- reduction of the number of income sources from six to four by treating income from business, agriculture and from liberal professions as one source:
- abolition of most of the existing reductions, exemptions, allowances and special treatments of incomes from different activities;
- harmonisation of the taxation of interest income;
- revision of the tax schedule, including the reduction of the number of brackets from 5 to 4; granting a larger personal allowance; increasing the lowest tax rate from 5 to 20 per cent; and reduction of the top marginal tax rate first from 40 to 38 per cent; and later to 35 per cent;
- improvements in the taxation of incomes in kind, including especially business cars:
- simplification of the personal income tax administration via exempting a large number of taxpayers from the obligation to file an income tax statement (those whose incomes fall below a certain threshold);
- subjecting unincorporated companies that were previously taxed under the personal income tax regime to the corporate income tax;
- gradual reduction in the corporate tax rate in future;
- measures to deal with the problem of offshore companies.

## Box 3. The proposed tax reform (cont.)

# Property holding and transfer taxes

- widening of the property tax base, to cover all property in the country, with minor allowances and exemptions, in place of a variety of taxes levied on immovable property under the current system;
- abolition of the property transfer tax on all property transfers that will be subjected to the value-added tax, and a substantial reduction of the tax on all other property transfers;
- reform of the inheritance and gifts tax (reduction in the number of tax schedules and tax rates).

#### Value-added tax (VAT)

- extension of VAT to cover immovable property (supplies of new buildings);
- abolition of the special treatment for the Aegean islands;
- abolition of the preferential taxation on some products (e.g. soft drinks, restaurants, electricity) and subjecting them to the standard VAT rate;
- abolition of the preferential treatment for certain professions (e.g. lawyers, notaries);
- measures to simplify administration of VAT, especially for small and medium-sized firms;
- possible VAT rate increases to offset revenue losses from the abolition of other indirect taxes.

#### Other indirect taxes

- abolition of all stamp duties;
- increase in excise tax rates (on tobacco, beverages and oil), to compensate for part of the revenue losses from stamp duty abolition and the rate cut of indirect taxes on intermediate products;
- abolition of the special turnover tax on certain insurance premia;
- abolition or at least reduction in tax rates on advertising.

#### Taxes levied on behalf of lower levels of government and third parties

- granting of the property tax revenues to local authorities;
- abolition of most taxes levied on behalf of third parties.

#### Administrative reforms

Wide revisions to tax administration, aiming at simplifying procedures and documents, and reducing the obligations that tax authorities place on taxpayers and third parties.

Source: Ministry of National Economy.

currently under way. To this end the government set up last year a special Commission, with experts from the public administration and academia, with the mandate to make proposals for a reform of the tax system. The Commission submitted its proposals last April, and they have been discussed with social partners. The Commission proposed far-reaching changes in all aspects of the tax system with emphasis on simplification. The proposals include the abolition of a number of taxes, of tax allowances and exemptions, the broadening of the tax base, the harmonisation of gift and inheritance taxes with the property taxes, and the introduction of a new property tax. The Commission also proposed measures that would significantly reduce collection and compliance costs. If the Government finally adopts these proposals, which are in line with OECD's recommendations in last year's Survey, it would constitute the most important change of the tax system in the last 25 years (Box 3).

#### **Notes**

- 1. Quarterly GDP data have been published only as from 2001. Year-on-year changes of these estimates are based on quarterly figures for 2000 which have been derived from interpolation of annual data and are thus not very informative.
- Consumer confidence dropped noticeably in October 2001, probably reflecting the
  effect of the terrorist attacks in the United States on September 11th, but it recovered
  already in November and December 2001 to levels last seen at the beginning of the
  year.
- 3. Official estimates of a household appropriations account are not yet available. The Statistical Office produces income and expenditure accounts only for the entire private sector, including public enterprises. Gross nominal disposable income of this sector is estimated to have increased by 4¾ per cent in 2001, while the saving ratio has decreased by about 1¼ percentage point, to 16¾ per cent in 2001.
- 4. The fall in housing investment in 2000 was preceded by a sharp decline in the volume of construction permits in 1999, which is not well understood. It may be related to household expectations of future decreases in mortgage interest rates.
- 5. Consumer credit increased by some 42 per cent both in 2000 and 2001. Most of household debt are loans for dwelling investment, with consumer borrowing being a relatively new phenomenon in Greece.
- Estimates of the National Bank of Greece, based on a sample of 254 non-financial companies listed on the Athens Stock Exchange and representing 87 per cent of total market capitalisation.
- 7. The share of business investment in real GDP rose from 10½ per cent in 1995 to slightly above 15 per cent in 2001.
- 8. Estimates by the Greek authorities point to a potential output growth rate in 2001 of 3¾ per cent.
- 9. For evidence that Greek merchandise exports are concentrated in goods which compete on price rather than on quality see the 1998 OECD Economic Survey of Greece, Box Land Annex I.
- 10. The Secretariat's analysis uses the method outlined in Fagerberg and Sollie (1987). The loss in market shares in manufacturing export values from 1995 to 2000 is explained largely by a an unfavourable "market share effect", which is the effect of changes in micro market shares, and both unfavourable commodity and country composition effects. The commodity adaptation and market adaptation effects are both positive, but not big enough to compensate for the mentioned negative factors.
- 11. Albania, Bulgaria, Romania and countries of former Yugoslavia.
- 12. Poland, Hungary, Czech Republic and Slovak Republic.

- 13. A new, more detailed quarterly Labour Force Survey with an enlarged sample size has been used since the autumn of 1998. It generates data in line with Eurostat rules. However, the data are available only with significant reporting delays, which limits its usefulness.
- 14. A sharp increase in both labour force and employment was recorded in 1998, two-thirds of which may be attributed to a change in the Labour Force Survey methodology which aligned it with Eurostat rules. The remaining part was the effect of a new policy adopted by the government in 1998 to grant residence and work permits to those immigrants mostly from Balkan countries who find employers who are ready to register them with the labour authorities and to pay a minimum of social security contributions.
- 15. Estimates based on the 2001 population census arrive at up to one million immigrants who have entered the country since the early 1990s, making up about 10 per cent of the population.
- 16. The unemployment rate for women fell from 16.7 per cent in 2000 to 15.4 per cent in 2001 and that for the young from 23.3 to 21.6 per cent.
- 17. The wage agreement of April 2000 also included a catch-up clause in the event that inflation were higher than 2.3 per cent in 2001. Since this turned out to be the case, compensation for the inflation overrun (1.1 per cent) was paid as of January 2002.
- 18. This has been analysed by Demekas and Kontolemis (1999) and resulted in empirical support of the hypothesis that in Greece government wages have driven up wages in the private sector, which has contributed to high unemployment.
- 19. If measured by the Greek Statistical Services' consumer price index (CPI), inflation was somewhat higher, at 2.6 per cent in 1999.
- 20. Official estimates suggest that these tax cuts reduced consumer price inflation by 0.9 percentage points in 1999 so that "genuine" inflation was at 3 (HICP) to 3½ (CPI) per cent in 1999. It could be argued that the cuts in indirect tax rates may also have helped to reduce inflation expectations. But if this had been the case at all, it seems to have been only temporary, if judged by available survey measures of consumers' inflation expectations.
- 21. The Balassa-Samuelson model suggests that countries which are experiencing higher productivity growth in the tradables sector than in the non-tradables sector will have higher inflation rates for non-traded goods and services. This is based on the assumption that wages set in the tradables sector will be followed by wages in the non-tradables sector and raise the latter above productivity. This will result in an increase in price inflation in the sheltered sector relative to the exposed sector. With overall inflation being the average of inflation in the two sectors, the average price level relative to other countries will increase in such a scenario. Given the highly centralised system of wage setting in Greece, a crucial assumption of the model seems satisfied. However, there is also evidence that wages in Greece's sheltered sector lead wages in the exposed sector instead of following them. Quantitative estimates of the Balassa-Samuelson effect for Greece can be found in IMF (1999).
- 22. It should be noted that the faster increase of contractual private sector pay in 2002 may be partly offset by lower wage drift, resulting from the slowdown in average annual GDP growth; thus, average earnings will accelerate to a lesser degree. Further, unit labour cost in the business sector, although growing somewhat faster than in 2001, will be damped by the abolition as of January 2002 of "stamp duty" paid by employers (which was a component of non-wage labour cost and was equal to 0.6 per cent of wage outlays).

23. For a description of the tax reduction package and the spending initiatives embodied in the 2001 Budget (presented to Parliament in November 2000), see OECD (2001a).

- 24. In line with Eurostat conventions, capital transfers to public enterprises are classified as acquisition of assets on a national account basis. Specifically, the state undertakes a capital increase in a public enterprise, and thus obtains an asset (equity) equivalent in value to the resources injected into the enterprise. Another adjustment beneficial to the budget outcomes is the assignment of the payments made not of the government's volition (mainly court-awarded pay) to the year in which the obligations took place, and not in the year they are actually paid. The 2001 and 2002 budgets included no such payments.
- 25. The 2001 Update of the Hellenic Stability and Growth Programme: 2001-2004. The December 2001 version of the Programme has been revised subsequently by the Ministry of National Economy in light of revisions to data for the years 2000 and 2001. The latter is used as a basis for the present analysis.
- 26. Output growth projections were revised down to 3.8 per cent at the time of the 2002 Budget (presented to Parliament on November 22nd 2001), from an estimate of 5.2 per cent at end December 2000, included in the 2000 Stability and Growth Programme, and 4.6 per cent at the time of the first draft of the budget in October 2001.
- 27. The OECD expects a surplus of 1 per cent in 2003, with the structural overall balance moving to a surplus of 0.6 per cent of potential GDP.
- 28. An important question in this context relates to the extent that Greece could allow automatic stabilisers to work, without endangering the specified deficit ceiling. As noted in the previous *Survey*, estimates by Artis and Buti (2000) suggest that a medium-term target deficit of 1½ per cent of GDP would suffice to comply with the Pact's requirements. A greater cushion is desirable, however, as recourse to discretionary fiscal policy may be more desirable than in most Euro area member countries. This is due to the relatively low sensitivity of the budget to the economy (van den Noord, 2000), which implies, in turn, that the economy is also relatively less affected by automatic stabilisers.
- 29. EPC/ECFIN/655/01-EN.
- 30. For a discussion see Manessiotis and Reischauer (2001).
- 31. To this end, a major project is under way which is expected to take some time to be implemented.
- 32. According to the Eurostat, the general government consolidated gross debt figures for Greece (and some other European countries) are likely to be revised upwards, as they do not incorporate share convertible bonds and privatisation certificates issued by the Greek state. The accounting treatment of securitisation is due to be decided by Eurostat by the beginning of July 2002 (Euro-Indicators, News Release, No. 35/2002, 21 March 2002, Eurostat).
- 33. The calling of debt guarantees also inhibits the adjustment of public debt in line with changes in general government's fiscal balance.
- 34. In the past social security funds had to hold a large portfolio of government bonds. They are netted out in the calculation of the consolidated Maastricht gross debt data. Pension reforms in late 1990s enhanced the autonomy of the social security contribution funds to manage their portfolios, of both financial assets and real estate, by permitting them to invest 23 per cent of these assets. The portion of the social security surpluses used to acquire assets other than government bonds amounted, on the basis of IMF calculations, to around 1 per cent of GDP in recent years.

- 35. In 2000, the Ministry of Finance raised € 740 million (around 0.6 per cent of GDP) from the securitisation of future dividends from Consignment Deposits and Loans Funds, and € 650 million (around ½ per cent of GDP) from the State Lotteries, with the corresponding proceeds used to reduce public debt. The government raised in 2001 the amount of € 2 000 million (around 1½ per cent of GDP) from the securitisation of future flows from the EU from the financing of CSFIII.
- 36. IMF independent estimates also point to the need of a primary surplus of around 9 per cent of GDP to meet the 60 per cent debt target by 2010 (IMF 2002).
- 37. In 2000 (end-year) the share of debt with maturity of less than a year comprised only around 11½ per cent of the domestic tradable debt, while the corresponding share with a maturity of over five years stood at 38 per cent.
- 38. The largest volume of floating rate bonds will be redeemed in 2003.
- 39. For example, in the December 2001 Update of the Hellenic Stability and Growth Programme: 2001-2004.
- 40. For an empirical support of this result see Andrikopoulos, Loizides and Prodromidis (2001). See also Georgakopoulos, Kintis and Loizides (1992).
- 41. General government includes Central government, Social Security Funds and Local Governments.
- 42. By "social protection" is usually understood health care, sickness benefits, disability pensions (and support in kind), old age and survivors pensions, family and maternity allowances, housing benefits, unemployment compensation, and all other transfers designed to support the needy.
- 43. Evidence in support of this assertion is provided by the low-income elasticity of government expenditures and especially of income transfers during this period. See Georgakopoulos and Loizides (1994).
- 44. These so-called "problematic enterprises" were a group of 36 enterprises, totally or partly belonging to the private sector which were nevertheless supported by the government.
- 45. Public employment data in Greece are poor and not altogether comparable with other OECD countries, and the Public Management Service (PUMA) of the OECD (1994) does not include Greece in its study.
- 46. A civil service career is most likely to start and finish within the same ministry. There is no inter-ministerial corps, though this possibility has often been envisaged and the relevant legal provisions are already in place. There is a widely shared belief among specialists that inter-ministerial corps would enhance flexibility and work against compartmentalisation.
- 47. Moreover, the Ministry is taking steps to establish a long-term planning for recruitment: a new draft law on Personnel Recruitment is being prepared and will be submitted to the Parliament by the end of June 2002. The main provisions of the draft law are: the revision of selection system based on objective criteria (for example, education level, knowledge of foreign languages, experience in the position field, general working experience, use of information technology and others), point system for recruitment, enhancement of the role of the High Council of the Selection of Personnel, along with the simplification acceleration and decentralisation of recruitment procedures.
- 48. The "1 in 5" policy has recently been abandoned.

49. As noted in the previous *Survey*, the estimates for private expenditure included in total outlays are subject to large margins of error, as they also attempt to capture unofficial payments. Another source of uncertainty regarding the amount of health spending arises from the poor accounts of hospital and social security funds, as well as the existence of long arrears to suppliers. They are cleared with a long delay by the government.

- 50. Law 2889/2001.
- 51. On the basis of the new law, a permanent contract will be granted to new recruits after 10 years (instead of 2 years) of service, on the condition that they have met successfully three consecutive evaluations.
- 52. The entitlement to "full-time exclusive" occupation in NHS refers solely to the university-status medical personnel, as the rest of NHS doctors are not entitled to operate private offices. The university doctors reacted negatively with strikes to the provision of the new law. However after a Supreme Court decision, the situation has calmed down.
- 53. The introduction of global budgeting proposed in the 1997 reforms has been postponed to the year 2002. The implementation of this measure is currently under the responsibility of PESYs' management. Moreover, the introduction of new methods of payments in public hospitals, including the diagnostic related groups payment (as distinct from uniform fees-per-patient), will be considered after the implementation of the planned reforms of the primary health care system and the establishment of a single Unified Health Fund. The diagnostic related groups payments (a measure not envisaged in the 1997 reforms) would allow for a differentiation between surgical and pathological services (including separate rates for specific cost services).
- 54. These include the social security funds for salaried workers (IKA), agricultural sector (OGA), civil servants (OPAD), entrepreneurs (OAEE) and Nautical employees. It is estimated that the primary health care reform, especially the establishment of ODIPY and the effective management of economic resources, will generate cost savings that will finance the implementation of family doctor.
- 55. The unification of primary health care foresees that all the medical services (mainly the IKA polyclinics and their staff) that currently belong to the above mentioned five largest health insurance funds, will be integrated into the PESYs/NHS under the responsibility of the Minister of Health and Social Welfare, and administrated by ODIPY.
- 56. A new package of measures to control the fast rising demand for pharmaceuticals is also under preparation. This includes a catalogue of the "over-the-counter drugs" (OTCs) that is, drugs which will neither be prescribed nor be covered by the insurance funds. Between 1998 and 2000, expenditure on pharmaceuticals rose by over 30 per cent in real terms. See previous OECD Surveys for a discussion of the measures taken since 1997 to control pharmaceutical expenditure.
- 57. Those who joined the labour force after January 1993 will have lower replacement rates on retirement.
- 58. Data presented in the EU EPC report "Budgetary challenges posed by ageing populations" EPC/ECFIN/655/01-EN final, October 2001.
- 59. EU EPC, ibid.
- 60. Bassanini and Scarpetta (2001a); and Bassanini, Scarpetta and Hemmings (2001).

- 61. Lower secondary school teachers with 15 years experiences.
- 62. Antoninis and Tsakloglou (2001) examined the distributional impact of public education in Greece using the micro-data of the 1993/94 Household Budget Surveys. The aggregate distributional impact of public education is found to be progressive although the incidence varies according to the level of education under examination. In kind-transfers of education services in the fields of primary and secondary education lead to a considerable decline in inequality, whereas the distributional impact of tertiary education transfers is found to be regressive. Moreover, the overall progressivity of public education transfers declined between 1988 and 1994, and almost the entire decline is driven by changes in the progressivity of tertiary education transfers.
- 63. Greece received large amounts of resources for training from the EU Social Fund after entry, and implemented co-financed training activities.
- 64. Greece is not in the sample of OECD countries for which detailed data and analysis are available in the OECD publication "Education at a Glance".
- 65. These include: i) all central government departments (e.g. the various Ministries, the General Secretariats, etc.); ii) all independent Administrative Bodies; iii) all other decentralised public authorities having their own budget (e.g. Post Office Savings Bank); iv) all Public Law Legal Bodies (Universities, Regional Health Councils, Public Libraries, Social Insurance Bodies, Research Centers, Hospitals, etc.), as well as all public bodies established by them; v) local and Prefecture governments, as well as all public bodies established by these authorities; vi) all private law legal bodies, enterprises and every body that is subsidised by public money, including subsidies from the EU or any other International Institution, as well as all bodies that get loans under the government guarantee; vii) all specials account operating outside the government budget.
- 66. Another important recent development is the setting up of a new Committee composed of academic and government official experts in accounting and control methods which will look at the question of government expenditure evaluation and control in an attempt to improve efficiency in the public sector and restraint in government expenditure.
- 67. CSF include both structural and cohesion funding. Structural funds have been in place since the creation of the European Community (EC) to reduce the gaps between more and less advanced regions. The Cohesion Fund was introduced in 1993 to support specifically the least prosperous member countries (Greece, Ireland, Portugal and Spain) by funding investment projects for environment and transport infrastructure.
- 68. In the definition of value added per employee.
- 69. Latest estimates for most OECD countries can be found in the OECD (2001) Science, Technology and Industry Scoreboard, Table D.3.1. For details on the calculation method see Scarpetta, Bassanini, Pilat and Schreyer (2000), "Economic growth in the OECD area: recent trends at the aggregate and sectoral level", OECD Economics Department Working Paper No. 248, May.
- 70. The positive differential between the growth of labour productivity and multi-factor productivity is attributable to increased capital deepening, *i.e.* an increase in the capital/labour ratio.
- 71. Greek authorities estimate that potential GDP growth rates are higher by approximately half a percentage point.

72. The Greek population is rising significantly at present, largely because of the substantial influx of immigrants. They tend to have high participation rates, and are in part responsible for the comparatively high rate of growth of potential GDP. Arguably, if this influx is reduced in future, and as convergence to EU average income levels occurs, Greek potential GDP growth would fall.

- 73. See, for example, OECD Growth Project Background Papers Vol. I-III, OECD (2001g).
- 74. In the regression analysis, government consumption is found to have a positive impact on growth (possibly reflecting the high importance of educational and health expenditure in most countries). Other things are not equal, however, as consumption has to financed. Allowing for this, a larger size of government is found to have a negative impact on growth.
- 75. See Figure 8 of last year's OECD Economic Survey of Greece.
- 76. It should be noted that full recording of migrant workers employed in Greece would result in a higher employment rate and a lower unemployment rate.
- 77. Persons hired under regional employment contracts can be paid at the "general" minimum wage, instead of the higher wage set by sectoral or occupational wage agreements ("sectoral" minimum wages).
- 78. Empirical evidence reveals a link, though not a very strong one, between low pay and low household income in Greece (OECD 1998b). A recent study by Eurostat indicates that, in all EU countries, the proportion of workers living in low wage households is smaller than the proportion of low-wage workers. The specific findings for Greece indicate that 14 per cent of all employees live in a household with a low wage rate (compared to 9 per cent in the EU area). This proportion stands at 73 per cent for low wage employees (compared to 51 per cent in the EU area) and may suggest that there is some link between low pay and low income (Marlier and Ponthieux, 2000).
- 79. Minimum wages in Greece are graded by the years of work experience and marital status. In consequence, the differential between average earnings in manufacturing (for blue collar workers) and the national minimum is low on average. According to a recent Eurostat study, drawing on the European Community Household data, low wage workers comprise 17 per cent of employees (corresponding to approximately 380 000 persons) in Greece, compared to an EU average of 15 per cent. (Marlier and Ponthieux, 2000).
- 80. The new national collective wage agreement for 2002-03 provides for an increase of 0.1 percentage point of wage outlays (0.05 percentage point for each year) in the employers' social security contributions to "Ergatiki Estia" (a Workers' Fund that finances cultural activities *e.g.* by providing free or low-cost theatre tickets to workers). Workers' and employers' current contribution rate to "Ergatiki Estia" is 0.25 per cent (each).
- 81. Cross-country empirical evidence suggests that increasing tax wedges on labour income may partly account for the increase in structural unemployment observed in many OECD countries (Elmeskov, Martin and Scarpetta 1998).
- 82. See Nicoletti, Scarpetta and Boylaud 1999.
- 83. For firms with fewer than 50 employees the limit becomes 4, instead of 5 workers, and for firms between 50 and 199 employees the limit becomes also 4, instead of between 1 and 4.
- 84. Dismissal costs for white collar workers range from one-month salary (for employment between two months and one year) to 24 months' salary for employment longer than 28 years with the same employer. Severance payments are less generous, however, for

- blue-collar workers as they amount to only 150 daily wages for workers with employment longer than 30 years (in line with the provisions of the new national collective wage agreement for 2002-03). For blue-collar workers with short tenure (two months to one year), such payment is much lower amounting to 5 daily wages, therefore facilitating short-term flexibility of employment.
- 85. The findings of the EU *ad hoc* Labour Market Surveys reveal that limitations to hiring temporary workers and reluctance to hire personnel with permanent contracts, due to stringent severance payment provisions and legal procedures, inhibit labour utilisation flexibility in the services sector (with the assigned coefficients to these two factors exceeding the ones for the EU– and the Euro-areas). On the contrary, strict EPL rules were not found to be important obstacles to output adjustments in the case of industry and retail trade (Politis 2000).
- 86. The participation rates in Figure 17 probably underestimate underlying rates, because immigrants, particularly those working in the informal sector, are substantially underrepresented. Immigrants are now equivalent to 10-15 per cent of the Greek-born labour force, and actively seek employment.
- 87. On the basis of a recent Eurostat study, 14 per cent of women working part-time in Greece stated that they did so from choice, while 13 per cent referred to family commitments. However, in 55 per cent of the cases, women worked part-time because they could not find full-time employment (Marlier and Ponthieux, 2000).
- 88. The share of part-time employees in retail sales is comparable to the EU average (33 per cent of employees compared to an EU average of 37 per cent), while in industry this type of employment accounts for only 1 per cent of the employees in the sector, compared to 5 per cent in the EU area. Finally, part-time work accounts for 9 per cent of all employees in the services sector, compared to an EU average of 17 per cent (Politis, 2000).
- 89. At present, the service sector (including government) employs less than 60 per cent of the workforce, compared with an EU average of around 70 per cent. More strikingly, agriculture and fisheries employ 16 per cent of the workforce, 5 to 6 times higher than in the rest of the EU.
- 90. The new Law 2956 of 2001 on employment services, passed by Parliament in October 2001, contains provisions regulating temporary agency work and the operation of temporary employment agencies (TEAs). On the basis of the law, TEAs are companies whose scope of activity includes the provision of labour by their employees to another employer ("indirect employer") in the form of temporary employment. The levels of wages and social contributions cannot be below that set in collective agreements. A TEA may be set up only in the form of a public limited company with share capital of at least € 176 000. Its establishment also requires a special license from the Ministry of Labour, following an opinion from the Temporary Employment Control Commission
- 91. Workers can be contracted out for eight months, and then for another eight months; if more than two months elapse after the second eight-month period is over, the contract is immediately converted into an *ipso facto* open-ended contract.
- 92. Operating hours in industry increased from 64 hours per week in 1989 to 94 hours per week in 1999. This reflects an increase in overtime work, shift work and the recruitment of temporary workers at a time of declining employment (as measured by the number of persons) and increasing productivity (Sabethai 2000). The proportion of employees working outside standard hours exceeds the aggregate EU average.

93. In the case of the more flexible arrangement, the workers would agree to work 138 hours of overtime per year during the production peaks (to be offset by shorter hours or longer leave during troughs), in return for a 90 to 92 hours net reduction in working time over the year (resulting in an average working week of 38 hours), while no overtime payment is granted by the firm. As a result, the annual contractual working time is reduced to 1 750 hours per year, from 1 840 hours.

- 94. In all three cases the more flexible arrangement has been implemented by firms employing between 100 and 320 persons. The new overtime provisions, however, generated demands on the part of certain firms (such as, construction companies involved in the preparation of the 2004 Olympic Games, firm accountants in the run-up to the Euro, and banks) for special treatment. The government has increased in late June 2001, for the majority of the industries, the 15 hours ceiling of "legal" overtime per semester (i.e. that goes beyond the 3 hours of "unregulated" weekly overtime) per semester raising it to 25 hours (for the "heavy" industries the corresponding limit was raised from 20 to 30 hours).
- 95. The index of regional cohesion (the rate of standard deviation in unemployment rates for each NUTS3 region) for 1999 shows that regional differences in unemployment in Greece are only a third of those in Italy, less than a half of those in Spain and just over a half of those in Germany (Ministry of Labour and Social Affairs, 2001). Also see the ECB structural issues report Labour market mismatches in Euro area countries (March 2002).
- 96. Cross-country evidence suggests a negative relationship between the net internal migration and regional unemployment rates. Besides labour mobility, regional disparities in unemployment may reflect other factors, including labour force characteristics, regional earnings differentials, as well as demand factors also play a role. For a detailed discussion see OECD (2000b).
- 97. On the basis of current legislation, the duration of compensated unemployment ranges between 5 and 12 months, depending on the length of previous employment. This implies that, first-time job seekers who cannot find a job (with the exception of persons in the 20-29 age group, for whom, however, very rigid conditions and reduced benefits apply) and the long-term unemployed (some of whom are also first-time job seekers) are not covered by definition. The level of daily unemployment benefit is also low, amounting to about half the minimum wage (Sabethai, 2000).
- 98. The progress achieved so far in implementing active labour market policies is evident by the improvement of the unemployment prevention indicators, constructed by the Greek Public Employment Service. In particular, monthly data on registered unemployment flows suggest that, the percentage of young people who remained unemployed six months after their registration fell from 63 per cent in January 1999 to 37 per cent in June 2000.
- 99. The Public Employment Services are under the administrative responsibility of OAED and they are provided across four different levels: *i*) 50 EPCs, providing personalised services to the unemployed *ii*) 16 electronically-linked departments, connected to EPCs network, 48 Local Departments; *iii*) all OAED services are organised into seven Regional Administrations (Ministry of Labour and Social Affairs 2001). The 2001 NAPE envisaged the operation of 14 new EPCs, 11 of which are in the stage of installing the hardware and equipment, while the remaining three are still in search of head-quarters. 150 additional EPCs are being envisaged for the end-2006.
- 100. The methodology of the individualised approach for unemployment prevention has been finalised and fully worked out. The remaining task involves its diffusion to all EPCs. The implementation of the individualised approach has been faster, so far, in the major urban areas, with the process being already completed in Athens, Salonica and Patras.

- 101. According to the new bill, the reorganised OAED will remain a "public entity" setting government policies on employment and combating unemployment, as well as providing unemployment insurance. Alongside this, three flexible subsidiaries, operating as "sociétés anonymes", will be established in order to undertake: i) personalised support to the unemployed; ii) initial and continuing training and lifelong learning programs; and iii) data collection and analysis concerning unemployment and skill shortages. These three subsidiary public limited companies are owned by OAED, running on separate budgets, and are administrated by independent board of directors in which social partners participate.
- 102. The 1998 law on industrial relations authorised the operation of private employment offices (for ten different categories of workers), and the 2000 legislation speeded up this process. There are currently four large private employment agencies in the country. On the basis of the new law on employment services, passed by Parliament in October 2001, temporary employment agencies may obtain a special permission to mediate in job placements, as well as to carry human resource evaluation and/or training.
- 103. In addition to actions for employment subsidisation and training, the 2001 NAPE involves a number of initiatives aiming to support SMEs, technological modernisation, upgrading infrastructure, simplification and rationalisation of business environment, as well as measures to improve the adaptability of business and their employees, and to increase female participation in the labour market. The NAPE 2001 is expected to benefit 770 000 persons, some 3 000 persons more than previously.
- 104. The survey was conducted in the framework of the OECD's Programme for International Student Assessment (PISA), during 1999-2000. PISA seeks to assess how well 15-year-olds are prepared for life's challenges. The findings showed that Greece's mean achievement in "reading literacy" was 25th out of 31 countries and significantly lower (in a statistical sense) than 19 of them. In addition, the extent of between-school variation a composite of geographical, systemic and institutional factors in student performance in reading in Greece was the 6th highest of the 31 countries. PISA defines reading literacy as the ability to understand, use and reflect texts in order to participate effectively in life (OECD 2001d).
- 105. A study by the Federation of Greek Industries (SEV), conducted in Autumn-Winter 2000, concludes that 57 per cent of the firms in the sample could not find (or had difficulties in finding) persons with the required skills and university-level education. This rate dropped to 46 per cent for persons with a lower educational level. The most difficult skills to find were associated with ICT, accounting and marketing. Informal estimates by the Association of Greek ICT Companies suggest, in fact, that the current labour shortages in ICT field amount to between 30 000 and 50 000 persons. On the basis of a recent research, conducted by the Ministry of Labour in February-April 2001, around one-third of all firms in the sample declared that they faced immediate skill shortages, with this rate edging to 46 per cent for firms with more than 100 employees. Occupations most in demand were those of salesmen, unskilled manufacturing workers, truck and bus drivers; as well as, accountants, civil engineers and construction technicians, analyst operators. A recent research by the Center for Economic Planning and Research discusses the links between education and labour market needs in Greece (Kanellopoulos, Mavromaras and Mitrakos 2001).
- 106. Around 67.5 per cent of students, in 1998, were enrolled in general upper secondary schools.

107. Such measures, supported to a large extent by EU funds, include further development of the Institutes for Vocational Training (IEK); the establishment of the Greek Open University; Life-Long Learning Institutions, operating within tertiary education institutions; Second Chance Schools; upper secondary stage Technical and Vocational Education Schools; Adult General Education; Counselling and School Vocational Guidance; practical work experience for higher education students; daylong Kindergarten and Elementary schools, and other. Many of these initiatives are part of the wide-ranging 1998 educational reform programme.

- 108. See Press Note 11 February 2002, Eurostat.
- 109. In an effort to comply with the Lisbon conclusions, Greece has engaged in an ambitious programme to combat digital illiteracy in schools, combining the setting up of IT laboratories, the development of educational software and the training of a large number of teachers. The target is that all schools will be connected to Internet by the end of 2002 and all teachers trained in IT by 2003. It is estimated that by 2006 there will be an average of one computer available for every ten students (Ministry of Labour and Social Affairs, 2001).
- 110. The OPIS has been incorporated in the context of CSF III, with a total cost of € 2.8 billion over the period 2000-06. It is an innovative horizontal programme, including actions which fall in four broad areas: education and culture; citizens and quality of life; employment and social inclusion; and actions related to the new economy. The programme aims, among others, to equip and network schools and universities; support entrepreneurship and job creation related to the application of ITC, in established and emerging sectors of the economy and upgrade the IT skills and employability; and promote the digital economy, through for example, the strengthening of the infrastructure support for e-business.
- 111. A recent example of government intervention was the support of the government of "gentlemen's agreements" among firms to constrain price increases in the run-up to EMU to meet the Maastricht inflation criterion.
- 112. During the five-year period from June 1995 to June 2000, hence after merger control became mandatory, the Competition Committee adopted around 300 decisions, *i.e.* five times as many as during the five-year period 1990-1995, the vast majority of which concerned merger cases.
- 113. In 2000, the Parliament's Transparency and Institutions Committee found that the Competition Committee had been unable to handle its responsibilities because of lack of resources, traceable ultimately to lack of financial independence, and because of insufficient staff and expertise.
- 114. The Law No. 2837/00 (FEK 178/A of 3 August 2000) amended the main antitrust instrument in Greece, Law No. 703/77 (Law on the Control of Monopolies and Oligopolies and the Protection of Free Competition).
- 115. Up to 2000, the government has consistently rejected the Competition Committee's requests for additional resources.
- 116. The Competition Committee recently used its increased scope for manoeuvre to propose further legislative amendments with a view to abolishing market share criteria in merger control. According to the Committee, turnover thresholds alone would be sufficient, transparent and in line with the EC Merger Control Regulation 4064/89 and the European Commission's practice.

- 117. Other OECD countries with populations about the same as Greece have competition policy agencies that are from 50 per cent larger (Austria, Belgium) to four to six times larger (Czech Republic, Hungary, Sweden). See Wise (2001), Section 3.4.
- 118. Since 1995, the Committee has requested in vain exemption from general hiring rules so it could recruit directly and pay higher salaries than the basic levels. The hiring process has also been painfully slow: for example, in 1997, the Committee ask the public sector recruitment office to hire 7 expert staff. The positions were posted in 1998; applicants were interviewed in 1999; and hiring did not happen until 2000.
- 119. The Competition Committee estimates that its salaries would have to be raised by 50 per cent to attract the right people.
- 120. The state currently controls no companies involved in the production of goods, apart from three defence companies: Hellenic Aerospace Industry (EAV), munitions factory Pyrkal, and Hellenic Armaments Industry (EVO). The government is currently exploring the possibility of merging Pyrkal with EVO, while reflecting upon the method to be used for the privatisation of the new entity. The privatisation of EAV is also under consideration. In addition, the Industrial Reconstruction Organisation (IRO), that controlled public enterprises involved in goods production, has been liquidated. The liquidation of some subsidiaries, however, has not yet been completed because of legal reasons.
- 121. See Mylonas and Journard 1999.
- 122. Greece was granted a two-year derogation period for implementing the EU Directive on the liberalisation of the electricity sector.
- 123. For a discussion see, the 1998 and 2001 OECD Economic Survey of Greece and OECD Regulatory Reform in Greece (2001), as well as Mylonas and Papakonstantinou (2001). See also Greek Energy Policy in-depth Review 2002 [IEA/SLT/CERT(2002)8].
- 124. There is as yet no accounting separability between distribution and retailing.
- 125. Gas is sold on negotiated terms by DEPA (see below), an integrated monopolist, while no framework has been developed so far with regards the access to lignite, with PPC exploiting, under license, and without payment of royalties, the lignite deposits owned by the state. The natural gas transportation costs, along with the ability of DEPA to meet the projected demand of the planned units, and the levies which the PPC will charge for connecting the producers to national grid, are among the main concerns of the newly licensed investors the production of electricity with natural gas (*Kathimerini*, 4 October 2001).
- 126. PPC supplies large quantities of electricity at about half price to the aluminium and nickel smelting firms. These subsidies are due to be phased out in 2006 and 2003, respectively.
- 127. The breaking up of PPC's generation capacity should not result in inefficient productivity since the optimal operating size for generation is not large, as evidenced by the persistence of small generating companies, or their deliberate creation, elsewhere. In Italy, for instance, ENEL is required to divest 15 GW of generating capacity by 2002 in order to meet the requirements that no company controls more than 50 per cent of the generation market (Mylonas and Papakonstantinou 2001).
- 128. In July 2000, PPC started its restructuring programme and created a new organisation compatible to the new energy legislation, and in the view of the energy market liberalisation. The business plan targeted operating cost reduction at 10 per cent per year though to 2003, and personnel reduction from 31 000 to 25 000 persons by 2005,

through natural attrition. It also envisaged a reduction of capital expenditure by 20 per cent by 2004. To this end, a number of measures were implemented which have contributed to the remarkable improvement of financial results in 2001. In particular, profits before taxes increased from  $\leqslant$  5.5 million in 2000 to over  $\leqslant$  350 million in 2001, and PPC's debt burden was reduced, for the first time in the past six years, to  $\leqslant$  4 880 million at the end of 2001 (from  $\leqslant$  5 135 million at the end of 2000). The company's business plan provides for further improvements in the coming years. For the year 2002 the budget targets profit before taxes of  $\leqslant$  432 million and further reduction of debt down to  $\leqslant$  4 710 million.

- 129. As discussed in the 1998 OECD Economic Survey, for industrial users, prices can be negotiated based on a reference price that reflects the cost of alternative fuels plus a fixed margin. The resulting reference price appears to be in line with industrial prices in other EU countries, though the end-user price is higher due to the relatively high tax on heavy fuels in Greece. A few large public corporations, however, notably PPC, have signed long-term take-or-pay contracts with prices determined on the basis of costs, *i.e.* import prices from Russia plus a mark-up reflecting transport costs and DEPA's return on investments. The mark-up paid by PPC appears to be high compared with prices in the European Union. Nonetheless, as noted earlier, PPC has been granted compensation in the form of a profit-sharing agreement with DEPA.
- 130. Imports are also precluded because of low interconnection capacity. Demanding conditions for authorisation also raise barriers to competition from imports, as discussed in the previous OECD Survey.
- 131. For example, PPC had exclusive concessions to exploit the state-owned lignite mines, while there is a profit sharing agreement between PPC and DEPA on natural gas operation. A bidding process exists since recently to lease access to lignite mines, but so far there have been no bidders. In addition Hellenic Petroleum has a call option to re-purchase 35 per cent of DEPA.
- 132. Several foreign and domestic firms have tendered to participate in the low-pressure natural gas distribution companies. At this stage, DEPA is in the process of selecting a financial advisor, among those already pre-qualified, to undertake the task of the overall planning and bringing into completion the relative ventures. DEPA is due to launch international tenders asking for investors to participate in joint gas distribution companies for the eastern mainland and Evia, and for Eastern Macedonia and Thrace. This follows the creation of equivalent companies for Salonica, Thessaly and Athens last year.
- 133. See OECD (1998a) and Mylonas and Papakonstantinou (2001).
- 134. During 2001, the National Telecommunications and Post Commission (EETT) granted 38 individual licenses, following the granting of five such licenses in 2000. These individual licenses include: five licenses for Fixed Wireless Access; seven for Satellite Networks; 13 for Voice Telephony with use of Numbers from National Numbering System; three for Wireless Networks; four for Wired Network Infrastructure; three 2G licenses; and three 3G licenses. A number of new providers are expected to become operational during 2002, including three of the companies that have been granted individual licenses for Fixed Wireless Access. Finally, during 2000 EETT granted 32 General Authorisations, while 68 were granted during 2001 (National Telecommunications and Post Commission, 2002).
- 135. In April 2001, EETT published a regulation regarding the costing and pricing principles, on the basis of which, OTE has to apply the LRAIC+ methodology for interconnection and unbundled access to the local loop, and the Full Distributed Cost

- methodology with Historic Costs (FDC-HC) for leased lines. EETT has approved OTE's proposed LRAIC+ methodology principles for interconnection and unbundled access to the local loop, and an independent auditor has been assigned in order to audit the implementation of the OTE's approved LRAIC+ methodology.
- 136. Until mid-November 2001, eleven beneficiaries had expressed interest for and/or requested unbundled access to OTE's local loops at 103 of its Main Distribution Frame (MDF) sites. Two agreements have been concluded, with an equal number of beneficiaries, for the provision of 92 local loops. At least 76 of the requested loops are operational (National Telecommunications and Post Commission 2002).
- 137. Currently, the prices required by OTE for full unbundled access to its local loop are comparable to the EU average prices for similar services. In December 2001, EETT issued its decision approving (subject to changes) OTE's Reference Offer for shared access to its local loops, following a Public Consultation exercise during the period 20 September 2001 to 19 October 2001. The suggested prices for shared access to local loop are close to the EU average, although they are still provisional, as EETT is examining their cost orientation (National Telecommunications and Post Commission, 2002).
- 138. EETT issued two decisions referring to number portability and carrier pre-selection. As of May 2002, there were 13 interconnection agreements between OTE and fixed network operators and 4 agreements between OTE and mobile operators.
- 139. It should be noted that the market penetration of OA improved in 2001, with its domestic market share rising to 62 per cent from 50 per cent in 2000. Average per client revenue increased by 22 per cent and the passenger capacity was raised from 55.2 per cent to 60.5 per cent (National Bank of Greece, December 2001-January 2002).
- 140. YPA is a public service supervised by the Minister of Transport and Communications, and is delegated, according to Law 1340/83, with the governmental authority for the regulatory, operational and monitoring functions of the air transport system in Greece. In particular, the main responsibilities of YPA include: to act on behalf of the relevant Minister as the sate authority of aviation; promote, regulate, co-ordinate and monitor the Air Transport System in Greece; set rules and regulations/requirements for matters such as aviation safety, security, training, licensing/certifications and others; execute regulatory, legal and functional oversight over the airport services; operate the airport and air navigation services; and execute auditing and monitoring functions of airport and air navigation services.
- 141. As concerns railways, the reorganisation of the National Railroad Company (OSE) is proceeding, despite difficulties. OSE envisages that the cumulated debt will start declining from 2004 onwards. As for public transport, the operation of Athens metro since 1999, led to a rise in the number of passengers using public transports by 12 per cent, and resulted in the restructuring of the bus and trolley networks, thereby enhancing the quality of the service provided (Ministry of National Economy, 2001b).
- 142. Under EU rules, other European truckers can, provided they have an authorisation to operate internationally from any member state, unrestrictedly enter the Greek domestic market. There is a considerable degree of competition from liberalised non-Greek registered trucks, accounting in 1997 for almost 16 per cent of national and international hauling.
- 143. The following topics, included in the action plan, may provide an indication of the direction of the forthcoming reform: economic gains from possible mergers in the sector; possible economic incentives for mergers; recruitment for the fleet renewal; use of new technologies in transport undertakings operations; third party logistics and relevant legislative proposals; transport undertakings in the stock market.

144. European level legislation also governs the Greek domestic ferries sector. The European Union Regulation 3577/92 on maritime cabotage, removed cabotage restrictions for EU Member States for any ship flying the flag of an EU Member State. This Regulation includes a derogation period for Greece, until 1 January 1999 for cruise ships and vehicle ferries over 650 tons sailing between mainland ports, and until 1 January 2004 for regular passenger and ferry services and services under 650 tons (OECD, 2001b).

- 145. Regarding the implementation of the new regulatory framework for the domestic passenger-shipping sector, companies submitted 273 applications for new sea route licensing with final decisions to be announced by May 31st 2002 (Athens News Agency, 7 February 2002).
- 146. Empirical evidence for the contribution of financial development to economic growth through its effect on the level of investment even in the case of countries with relatively high income levels can be found in Pelgrin, Schich and de Serres (2002). For evidence on the links between financial development and growth over and above the links *via* investment, indicating impacts *via* overall economic efficiency see, for example, Leahy *et al.* (2001) and the references therein. Research by Rajan, and Zingales (2000) emphasises the particular importance of efficient financial systems for economic growth in countries which are less open to international trade and capital flows.
- 147. The regulation concerning the interest rate on saving deposits was abolished in 1993 and the regulation concerning the bank financing of small-scale industry was abolished as of end of June 2002).
- 148. The government *inter alia* justifies the holding of a substantial stake in the Agricultural Bank by its plans to promote the growth of the farm sector.
- 149. Strategic investors are also being sought for stakes in the Agricultural Bank's subsidiaries including Hellenic Duty Free Shops and Hellenic Sugar Industry. A recent example of a strategic alliance with a foreign bank is the partnership of the (state-controlled) Commercial Bank with Credit Agricole Indo Suez of France in 2000, which purchased 6.7 per cent of the Commercial Bank's share capital and is expected to increase its stake further.
- 150. Plans to merge the state-controlled National Bank and the private Alpha Bank, the country's two largest banks *via* a share swap, announced in November 2001 and welcomed by the government as well as the Federation of Bank Employee Union of Greece, failed in January 2002. The planned merger was believed to strengthen the Greek banking system without raising barriers to entry the Greek banking sector to other companies. The merged banking group would have accounted for about 40 per cent of the entire banking sector's assets. It would have been classed as medium-sized among European credit institutions, ranking among the top 25 in Europe based banks in terms of market capitalisation. The state's (indirect) stake in the new bank would have amounted to around 17 per cent, hence about half of its shareholding in the National Bank.
- 151. These are the National Bank of Greece, Alpha Bank, Agricultural Bank of Greece, Commercial Bank, and EFG Eurobank-Ergasias.
- 152. See the data given by K. Hope (2001) which suggest that Greece's larger banks exceed the BIS minimum capital adequacy ratio by a wide margin.
- 153. It is noted that in May 2002 the regulations concerning credit institutions' capital adequacy were amended and the provisions regarding the calculation of the amount of capital necessary for covering certain market risks were fully harmonised with those

of the relevant EU legislation; at the same time, a more efficient use of capital is achieved. More specifically, capital requirements for covering market risks deriving from credit institutions' positions on commodities and on financial derivatives on commodities, which were previously subject to the highest (i.e. 100 per cent) coefficient, are now calculated in such a way so as to take more precisely into account changing conditions in commodity markets. Furthermore, credit institutions' positions in gold are henceforth treated in a way analogous to their positions in foreign exchange. In addition, credit institutions were allowed to use, under specific terms and conditions, internal models to calculate with a better precision/accuracy their capital requirements for covering market risks. See the Bank of Greece Governor's Act 2494/27.5.2002.

- 154. Ratios of non-performing loans range from 3 to 9 per cent. See <a href="https://www.standardandpoors.com">www.standardandpoors.com</a> under Forum/Ratings/FinancialInstitutions. In this context, Standard and Poor's acknowledges the improvement in the transparency of the Greek banks' public disclosure of asset quality, but sees substantial room for improvement within the system.
- 155. According to Eurostat News Release No. 128/2001 6 December 2001, the number of banks in Greece increased on average by about 5 per cent per year from 1994 to 1999.
- 156. On the basis of the ratios to GDP of the level of loans, of assets and of deposits Standard and Poor's characterises the Greek financial market as "underbanked". *Ibid.*
- 157. The weight of the Greek stock market in the new index is only 0.5 per cent, compared with its former weight of nearly 20 per cent in the emerging-Europe category.

# Glossary of acronyms

ALMPs Active labour market policies
ASE Athens Stock Exchange

**ASEP** High Council for the Selection of Per

CMC Capital Market Commission
CPI Consumer Price Index
CSF Community Support Framework
CTAC Coastal Transport Advisory Committee
DEPA Public Natural Gas Corporation
EAV Hellenic Aerospace Industry

EAV Hellenic Aerospace In: EC European Community

**EETT** National Telecommunications and Post Commission

EMU Economic and Monetary Union
EOV Hellenic Armaments Industry
EPCs Employment Promotion Centres
EPL Employment protection legislation

**ERM** Exchange Rate Mechanism

ETBA Hellenic Bank for Industrial Development

**EU** European Union

FDCM-HC Full Distributed Cost methodology with Historic Costs

GDP Gross Domestic Product
GNP Gross National Product

HICP Harmonised Index of Consumer Prices

HP Hellenic Petroleum

IASC Integrated Airline Solutions Consortium
IEK Institutes for Vocational Training

IKA Social Insurance Institute

IRO Industrial Reconstruction Organisation

MDFMain Distribution FrameMFPMulti-factor productivity growthNAPEsNational Action Plans for Employment

NAIRU Non-accelerating inflation rate of unemployment

OA Olympic Airways

OAED Organisation for Manpower Development
OAEE Social Security Fund for the self-employed

**ODIPY** Organisation for the Management of Health Economic Resources

**OPIS** Operational Programme for the Information Society

OSE National Railroad Company

**OTE** Hellenic Telecommunications Organisation

PES Public Employment Service

PISA Programme for International Student Assessment

PMI Purchasing Managers' Index
PPC Public Power Corporation
RAE Regulatory Authority of Energy
SEV Federation of Greek Industries
SMEs Small and medium enterprises
TEI Technological education institutes
TEPs Territorial Employment Pacts

**UMTS** Universal mobile telecommunications system

(third generation mobile telephone systems)

VAT Value Added Tax

YPA Hellenic Civil Aviation Organisation

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# Annex I Supporting tables for Chapter III

Table A1. General government total outlays in the Euro area, OECD and Greece

In the Euro area, total OECD and Greece Per cent of nominal GDP

	Euro area	Total OECD	Greece
1985	47.1	37.8	43.10
1986	47.0	37.9	42.59
1987	46.7	37.8	42.54
1988	46.2	37.1	41.80
1989	46.1	36.8	42.92
1990	46.8	37.9	47.49
1991	47.4	38.6	43.48
1992	48.0	39.5	45.36
1993	49.9	40.4	47.47
1994	48.8	39.5	45.50
1995	48.4	39.2	46.67
1996	48.6	39.0	44.34
1997	47.1	37.7	42.77
1998	46.4	37.3	42.71
1999	46.1	37.2	43.31
2000	44.2	36.5	43.35
2001	45.1	37.1	41.53

Source: OECD Economic Outlook 71, June 2002 and National Statistical Service of Greece.

Annex I

Table A2. Total expenditure of the General government (consolidated data)
1960-2001 per cent of nominal GDP

		Total capital outlays		Social					
	Final consumption	Gross fixed capital formation	Other capital expenditure, net	transfers other than in kind	Subsidies	Interest, net	Other current expenditure	Total expenditure	
1960	10.56	2.60	0.63	6.45	0.09	-0.09	2.24	22.47	
1961	10.09	2.82	0.70	6.49	0.31	0.00	1.96	22.38	
1962	10.50	3.05	0.82	7.15	0.30	0.00	2.01	23.83	
1963	10.01	2.37	0.59	7.37	0.46	0.13	1.84	22.78	
1964	10.30	2.21	0.52	7.63	0.81	0.17	1.69	23.34	
1965	10.30	1.92	0.40	8.08	1.01	0.25	1.31	23.27	
1966	10.34	2.26	0.45	8.31	1.49	0.18	1.40	24.44	
1967	11.46	2.13	0.38	9.12	1.63	0.21	1.26	26.19	
1968	11.38	2.50	0.42	9.35	1.31	0.19	1.31	26.46	
1969	11.03	2.54	0.43	8.92	0.80	0.20	1.50	25.43	
1970	10.87	2.72	0.47	8.72	0.74	0.35	0.98	24.85	
1971	10.70	2.82	0.48	8.81	1.06	0.45	0.85	25.17	
1972	10.30	3.31	0.64	8.25	1.10	0.39	1.15	25.16	
1973	9.54	3.01	0.69	7.32	1.57	0.40	1.16	23.68	
1974	11.75	2.51	0.57	8.03	2.25	0.70	1.19	27.00	
1975	12.79	2.91	0.60	8.16	2.16	0.79	1.29	28.70	
1976	12.56	2.90	0.54	8.20	2.36	0.93	1.29	28.77	
1977	13.29	2.77	0.44	8.90	2.49	0.87	1.30	30.07	
1978	13.12	2.61	0.46	9.47	2.40	1.06	1.27	30.37	
1979	13.47	2.61	0.53	9.19	1.91	1.28	1.23	30.21	
1980	13.46	2.09	0.48	9.45	1.99	1.41	1.37	30.25	
1981	14.80	2.55	0.54	10.88	3.06	2.02	1.58	35.42	
1982	14.99	2.32	0.71	12.46	2.42	1.59	1.98	36.47	
1983	15.50	2.97	0.78	12.99	1.77	2.24	2.25	38.51	
1984	15.98	3.49	0.57	13.37	1.65	2.92	2.12	40.09	
1985	16.61	3.65	0.56	14.23	2.43	3.58	2.05	43.10	
1986	15.74	3.36	0.25	14.28	2.27	4.12	2.57	42.59	
1987	16.04	2.64	0.49	14.69	1.99	5.16	1.53	42.54	
1988	14.11	2.91	0.84	14.38	2.02	6.85	0.68	41.80	
1989	14.98	2.86	1.16	14.66	1.49	6.77	1.00	42.92	
1990	15.06	2.67	3.71	14.55	1.22	9.36	0.92	47.49	
1991	14.20	3.04	1.84	14.38	0.61	8.37	1.03	43.48	
1992 1993	13.74	3.23	2.08 2.32	14.31	0.51	10.51	0.97	45.36	
1993	14.30	3.02 2.94	-0.30	14.59	0.50 0.40	11.36 12.58	1.37 1.24	47.47	
1994	13.77 15.32	3.17	-0.30 0.22	14.87 15.10	0.40	11.15	1.24	45.50 46.67	
1995	15.52	3.17	-0.98	15.10	0.42	10.53	1.29	44.34	
1996	14.52	3.40	-0.96 -0.85	15.56	0.46	8.24	1.24	44.54	
1997	15.15	3.55	-0.65 -1.04	15.74	0.15	6.24 7.79	1.15	42.77	
1998	15.29	3.69	-0.26	15.74	0.14	7.79	1.22	43.31	
2000	15.40	3.74	-0.20 -0.20	16.32	0.19	7.00	0.83	43.25	
2000	15.45	3.83	-1.20	16.05	0.17	6.21	1.03	41.53	
2001	17.47	ره.ر	-1.20	10.07	0.17	0.21	1.05	41.70	

Source: Main national account aggregates of the Greek Economy, 1960-2001 (ESA-95), Ministry of National Economy, Directorate General for Economic Policy, January 2001.

Table A3. **General government expenditure by function**Per cent of total government expenditure

	1995	1996	1997	1998	1999	2000
General public services	33.21	27.60	24.11	23.55	24.01	22.98
Defence	6.26	6.49	7.11	7.37	7.20	7.63
Public order and safety	2.32	2.27	2.54	2.56	2.59	2.62
Economic affairs	0.35	0.44	0.47	0.47	0.48	0.46
Environmental protection	1.10	1.28	1.17	1.17	1.26	1.20
Housing and community amenities	0.76	0.77	0.63	0.80	0.44	0.53
Health	8.14	8.12	8.95	9.36	9.08	8.97
Recreation, culture and religion	0.59	0.69	0.82	0.81	0.84	0.84
Education	7.66	8.11	9.47	9.45	9.54	9.59
Social protection	39.62	44.23	44.74	44.47	44.57	45.17
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: OECD, National Accounts.

Table A4. Some government expenditures in OECD countries<sup>1</sup>
Per cent of GDP

	Public services	Defence	Education	Health	Pensions	Disability and sickness	Unemployment benefits	Family cash benefits	Public debt interest
Australia									
1980	3.0	1.9	4.5	5.5	3.2	1.3	2.0	2.2	4.1
1995	3.0	2.0	5.9	4.4	3.8	0.9	0.7	0.9	3.1
Austria									
1980	3.6	0.9	5.3	5.7	13.1	1.9	1.8	1.9	4.4
1995	2.9	1.0	5.2	5.2	12.3	1.9	1.2	2.1	4.0
Canada									
1980	1.5	1.1	5.8	6.5	4.8	1.1	1.8	0.8	9.6
1995	2.4	1.6	5.0	5.4	3.1	0.7	1.6	0.7	5.4
Denmark									
1980	4.3	1.7	6.5	5.1	7.4	2.8	6.3	1.9	6.4
1995	4.1	2.5	7.7	5.7	6.0	0.9	5.3	1.1	3.9
Finland									
1980	1.6	1.6	6.6	5.6	8.9	4.4	5.5	2.7	4.0
1995	1.8	1.4	4.8	5.0	5.5	3.1	1.6	1.1	1.0
France									
1990	4.5	2.9	5.9	7.1	12.0	2.1	3.3	2.2	3.5
1993	3.9	3.1	5.1	6.5	10.9	2.0	2.6	2.1	2.9
Germany									
1991	3.9	1.4	4.5	8.0	10.7	1.9	3.7	1.2	3.7
1995	4.6	1.9	4.4	7.1	9.7	1.6	3.0	1.3	2.9
Greece									
1980	7.9	4.5	3.3	4.8	9.2	2.3	1.0	1.9	11.2
1995	6.0	4.8	2.0	2.7	5.5	1.6	0.3	0.4	1.4
Italy									
1980	4.5	1.7	4.5	5.3	13.5	1.9	2.0	0.4	11.5
1995	3.4	1.7	4.8	5.6	9.0	1.8	0.6	1.0	5.0

Table A4. **Some government expenditures in OECD countries**<sup>1</sup> (cont.)

Per cent of GDP

	Public services	Defence	Education	Health	Pensions	Disability and sickness	Unemployment benefits	Family cash benefits	Public debt interest
Japan	2.4	0.0	2.0	- /		0.6	0.5	0.0	2.0
1980 1995	3.6 3.3	0.9 0.9	3.8 4.9	5.6 4.6	6.2 4.0	0.6 0.5	0.5 0.0	0.2 0.2	3.8 3.2
Netherlands									
1980	9.8	1.8	4.6	6.5	7.5	5.8	4.0	1.0	5.9
1995	9.7	2.9	6.3	5.7	7.6	7.7	2.3	2.0	3.8
New Zealand									
1990	4.2	1.1	5.2	5.3	6.0	2.8	2.0	2.0	4.8
1994	4.7	1.8	5.5	5.8	7.6	2.9	2.8	2.6	8.5
Norway									
1980	3.1	2.6	6.8	6.6	6.2	3.9	2.4	2.3	2.8
1995	2.2	2.6	5.9	5.9	5.1	3.4	0.4	1.3	3.1
Portugal									
1990	2.0	2.2	5.4	4.7	7.3	2.3	1.7	0.7	6.3
1995	2.7	2.3	4.3	4.2	5.3	2.5	1.0	0.6	8.1
Spain									
1990	1.8	1.4	4.8	5.5	8.9	2.4	3.2	0.3	5.2
1995	1.7	1.5	4.2	5.2	7.8	2.2	3.0	0.2	3.8
Sweden									
1980	3.0	2.3	6.6	5.7	8.6	3.8	4.5	2.0	6.8
1995	2.9	3.3	7.6	8.4	7.2	4.4	1.6	1.7	3.9
United Kingdom									
1980	1.9	3.2	4.6	5.7	7.3	3.0	1.3	1.9	3.6
1995	1.9	5.0	4.6	5.1	7.1	1.4	1.7	1.8	4.7
United States									
1980	2.9	5.2	5.0	6.5	6.5	1.3	0.6	0.3	4.8
1995	2.5	7.1	5.3	4.0	6.3	1.2	0.9	0.5	3.2

<sup>1.</sup> SNA68/ESA79.

Source: OECD, National Accounts, Vol. II, and National Statistical Service of Greece.

Annex I

Table A5. **Social Expenditure by function**Per cent of GDP

	Old age benefits	Health and occupational injury benefits	Survivors benefits	Family services	Unemploymen benefits	t Other benefits	Total
1990	9.3	7.2	2.0	1.6	0.9	2.2	23.2
1991	8.8	6.7	1.9	1.7	1.0	1.7	21.8
1992	8.8	6.9	1.8	1.7	0.9	1.4	21.5
1993	9.0	7.1	1.9	1.7	0.8	1.8	22.3
1994	8.9	7.1	1.9	2.0	0.8	1.6	22.3
1995	9.2	7.1	1.8	1.9	1.0	1.6	22.6
1996	9.5	7.0	1.9	1.9	0.9	1.9	23.1
1997	9.8	7.1	1.9	1.9	1.0	1.9	23.6
1998	10.2	7.3	2.0	2.0	1.1	1.7	24.3

Source: National Statistical Service of Greece, Expenditures on Social Protection, 2001.

#### Annex II

### Factors that will impact on budgetary outcomes in future

#### Better economic performance

Future developments in public expenditures in Greece will depend on a number of economic and political factors, as well as on the constraints set by the membership of the EU and the euro zone.

The basic scenario, contained in the 2001 Update of the Stability and Growth Program 2001-2004, submitted by the Greek government to the European Council in December 2001, assumes an average real GDP growth rate of 3.9 per cent, together with an alternative less optimistic scenario based on a poorer export performance and a weaker domestic demand and an average rate of 3.3 per cent real GDP growth. All international Organisations (EU, IMF and OECD) share the view that Greek economic performance will be above the Euro-area and the OECD countries average, thereby closing a part of the existing gap in *per capita* GDP. An average growth rate of above 4 per cent for the next 4-5 years is an achievable goal and would permit allocation of more resources to important goals (*e.g.* education, health) while reducing debt levels.

#### **Privatisation**

The Greek public enterprise sector is comparatively large, and makes losses. Privatisation would permit lower expenditure on both subsidies and debt servicing freeing up resources for spending in areas yielding higher social and economic returns. A number of public enterprises in the banking and utilities sectors are now in the process of privatisation and the economic liberalisation that accompanied it (see Chapter IV). In the banking sector, privatisations have progressed with an offering of 13 per cent of the Agricultural Bank share capital on the Athens Stock Exchange (ASE), in December 2000. In October 2001, the Hellenic Bank for Industrial Development (ETBA) was privatised through its acquisition by the Bank of Piraeus. The Public Power Corporation has been partly privatised, via a public offering in the ASE. A further 10 per cent the Hellenic Telecommunications Organisation has been offered in mid-2001, through the issue of an exchangable bond, while a strategic ally is sought for the privatisation of the postal services, with the main task of developing the express delivery mail services, via a 15-25 per cent offering. A strategic investor is sought for the Olympic Airways, via an offering of 51 per cent of its shares (the latest attempt to find such an investor finally failed) and a strategic partner for Hellenic Petroleum. A 25 per cent holding plus the management of Hellexpo has been offered to a strategic partner. The concession contract for the Corinth Canal was signed in May 2001. The Salonica Port Authorities, as well as the Football Prognostics Organisation have already been partly privatised. The Piraeus Port Authority is also in the process of privatisation.

Annex II

#### Co-financing

By contrast, the absorption of the third Community Support Framework will lead to an increase in Government expenditure, especially on investment, both because most of these funds are spent by the government and also because new expenditures will be needed to co-finance the various projects. Over the 5-year period 2001-2005, Greece will receive about € 26 billion at 2000 prices, or as much as 30 per cent of GDP, while co-financing expenditures will reach € 12.5 billion or about 10 per cent of GDP.

#### Social programmes

Social expenditures, even excluding spending on public pensions are also expected to rise faster than GDP in order for the government to satisfy the rising demand for expansion and quality improvement in social services. An ageing population will put additional pressures for increases in social expenditures but a radical reform of social security, including a substantial improvement in its efficiency and effectiveness, which is now under consideration will be restraining factors. As noted, reforms to the public pension system are urgent and need to be comprehensive in scope, and large in size.

#### Education

The quality of public provision of education needs to improve, including at tertiary levels. This could entail higher spending 1 per student, although efficiency gains are possible. Demographic factors will play a major offsetting role, as the size of the school-age population is small and expected to fall. Between 1995 and 2010, the percentage of the population in the 5-14 age group, will fall by 12 per cent, that in 15-19 age group by 23 per cent and that in the 20-29 age group by 19 per cent (OECD, 2001). Despite the fall in the numbers of the youth population at the age of tertiary education however, pressure on expenditure at this level will likely remain high and rising. Demand for improved provision is likely to rise with income, as the benefits of longer and better quality formal education become more evident.

#### Re-orienting spending

The 2001 Updated Stability Programme<sup>2</sup> (see also Chapter II) plan submitted by the government to the European Council provides for a restraint in the overall size and a considerable restructuring of government spending towards more growth-enhancing activities. Government consumption is planned to increase by an average rate of around 0.7 per cent in the basic scenario (3.9 per cent real GDP growth) and 0.4 per cent in the alternative scenario (3.3 per cent GDP growth) and to fall from 13.6 per cent to 12.2 per cent of GDP at constant 1995 prices, over the period 2001-2004. General government investment expenditure (at constant 1995 prices) is projected to increase at an average rate of 7.7 per cent. Social transfers are planned to increase at an average rate of around 8 per cent, whereas interest payments are projected to fall at an average rate of 1.1 per cent, as a result of both falling interest rates and public debt size.<sup>3</sup>

#### **Notes**

- 1. In 2001, central government's operating subsidies to public enterprises amounted to 2.4 per cent of GDP and are estimated to increase to 2.7 per cent of GDP in the year 2002.
- 2. Incorporating subsequent revisions made by the Ministry of National Economy in the December 2001 version of the updated Stability and Growth Programme in light of revisions to data for the years 2000 and 2001.
- 3. The latter is planned to fall from 99.7 per cent of GDP in 2001 to 90 per cent in 2004.

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#### Annex III

## The main features of the law on the liberalisation of the electricity market

- The law establishes the objectives of the Minister of Development and the Energy Regulatory Authority in this sector.
- Provides for the establishment of an Energy Regulatory Authority, an administratively independent agency within the Ministry of Development, to advise and monitor the energy markets, and impose fines.
- Retains regulatory powers in the Minister of Development, notably with respect to authorisations for any electricity activities, tariffs, and public service obligations.
- Sets out regulatory principles, notably that tariffs must cover all costs, including public service obligations, and that Public Power Corporation (PPC) cannot cross-subsidise between liberalised and captive customers.
- Requires PPC to keep separate accounts for its generation, transmission, and distributionsupply activities.
- Removes PPC's legal monopoly on generation by introducing an authorisation regime for the mainland and interconnected islands and a tendering process for non-interconnected islands
- Removes PPC's legal monopoly on supply by introducing an authorisation regime, but retains PPC as the unique supplier to captive consumers.
- Retains PPC as the exclusive owner of transmission, and exclusive owner and operator of distribution.
- Requires that a supplier owns adequate generation capacity in an EU Member state, and proves long-term access to the necessary transmission and distribution capacity.
- Provides for the establishment by June 2000 of a system operator, Greek Electricity Transmission System Operator, SA to operate, manage, secure the maintenance of, and plan the development of the transmission system. It also procures ancillary services. It will be owned 51 per cent by the state and 49 per cent by generators connected to the system, initially only PPC.
- Provides for access to the transmission and distribution grids at tariffs set by the System Operator and PPC, respectively.
- Provides that, on 19 February 2001, consumers totalling 30 per cent of demand, including all customers with annual consumption over 100 GWh, will become eligible to choose the supplier.
- Provides that the cost of commitments or guarantees of operation given before the entry into force of the Directive may be included by PPC in its tariffs. To do so, the Government applies a transitional ("stranded cost") regime.

#### Annex IV

### Calendar of main economic events

#### 2000

#### December

The Bank of Greece aligns its key interest rates with the respective rates of the European Central Bank (ECB), in view of Greece's entry into the Euro area as from 1 January 2001. Accordingly, the intervention rate on the 14-day main refinancing operations of the Bank of Greece is lowered from 5.75 per cent to 4.75 per cent.

Thirteen per cent of the share capital of the state-owned Agricultural Bank are floated on the Athens Stock Exchange (ASE).

#### 2001

#### January

Greece becomes member of the European Economic and Monetary Union and adopts the Euro at the irrevocable conversion rate of 340.75 drachmas per Euro.

The telecommunication sector is being liberalised, following the opening up of the fixed-voice telephony market.

#### **February**

The electricity market is being partially liberalised.

#### March

The European Commission approves the targets of the Greek Government's 2000 Stability and Growth Programme for the 2000-04 period.

The government initiates a new health care reform programme with an implementation horizon of 6 years. The Law 2889/2001 legislates the "first wave" health care system reforms, which includes a significant decentralisation of decision-making authority through the establishment of seventeen Regional Health Systems, aimed at rational and manageable administrations. The regional systems are also allowed to establish state-owned public corporations to deal with hospitals' support functions.

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#### **April**

The 2000 legislation for labour markets (Law 2874/2000) comes into force. *Inter alia*, it provides for new "making-work-pay" measures to encourage part-time employment; reduced ceilings for the weekly overtime at the employers' discretion; increased premia for overtime; a scheme of working time annualisation while reducing the agreed workweek from 40 to 38 hours; and a 2 percentage points reduction of the employers' social security contributions for low-wage workers.

#### May

The ECB lowers its key refinancing (repo) rate from 4.75 per cent to 4.50 per cent.

Morgan Stanley Capital International upgrades the Athens Stock Exchange (ASE) from emerging to mature-market status.

#### June

A new one-year collective agreement for the banking sector is being concluded which increases basic pay and allowances by 4.2 per cent.

The regional Health Systems become operational. They are run by professional managers (with qualifications and fees compatible to those in the private sector) and have full responsibility for financial management, recruitment of personnel and the supplies of regional units.

#### July

The Bank of Greece approves the participation of two major credit institutions in the development of an e-money scheme, which is planned to be implemented gradually on a nation-wide basis, using the technology of major European e-money schemes.

#### **August**

The ECB lowers its key refinancing rate from 4.5 per cent to 4.25 per cent.

#### September

The ECB lowers its key refinancing rate from 4.25 per cent 3.75 per cent.

#### October

The acquisition of the Hellenic Bank for Industrial Development (ETBA) by the Bank of Piraeus implies the privatisation of the ETBA.

#### November

The ECB lowers its key refinancing rate to from 3.75 per cent 3.25 per cent.

The Government presents to Parliament the 2002 Budget, which aims at a surplus of 0.8 per cent of GDP.

#### December

The Government submits to the European Commission the 2001 Hellenic Updated Stability and Growth Programme for 2001-04, revised in light of the adverse international developments.

15.3 per cent of the equity of the Public Power Corporation (PPC) is being floated on the Athens Stock Exchange.

#### 2002

#### January

A package of tax measures comes into effect which may entail budgetary costs of around ½ per cent of GDP. The measures *inter alia* comprise tax relief for wage earners and businesses and elements which aim at the promotion of employment. The package also addresses the problems of the uneven taxation of capital income and the high cost of tax administration.

Euro banknotes and coins are introduced in Greece.

The European Commission approves the targets of the 2001 Update of Stability and Growth Programme for 2001-04.

#### April

The National General Collective Agreement for the period 2002-03 is being concluded, which provides for pay increases of 5.4 per cent in 2002 and 3.9 per cent in 2003, along with a variety of amendments to employment and social conditions.

A special Commission of Experts submits to the Government a far-reaching tax reform proposal which covers all taxes levied by the central government and local authorities, as well as all taxes levied on behalf of third parties, including the Social Security Funds. Social security contributions proper are in the planned reform of the social security system. Following discussions with social partners, a detailed draft reform is to be put before Parliament.

#### **Iune**

A new law on the "Reform of the Social Security System" is being approved by Parliament.

OECD ECONOMIC SURVEYS 2001-2002

**Greece** 



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# BASIC STATISTICS OF GREECE

#### THE LAND

Area (sq. km) Agriculture area (sq. km)	131 957 39 290	Major urban areas, 2001 census (thousand inhabitants): Greater Athens (including Piraeus) Greater Thessaloniki	3 200 1 047				
	THE PI	EOPLE					
Population (thousands, 2001 census) Inhabitants per sq. km Increase over 1991-2001, per cent	10 940 82.9 6.7	Total employment (thousands, 2001) By sector (per cent): Agriculture Industry and construction Services	3 901.4 15.9 22.9 61.2				
	PRODU	CTION					
Gross domestic product in 2001: Million of euros Per head (US\$)	130 426 10 674 <b>THE GOVE</b>	Gross fixed investment in 2001: Per cent of GDP Per head (US\$)	23.2 2 476.1				
	THE GOVE	EKNIZIENI					
General government (per cent of GDP) in 2001: Current expenditures Current revenue Net lending	38.9 41.6 0.1	Composition of Parliament (number of seats): Panhellenic Socialist Movement (PASOK) New democracy (ND) Communist Party (KKE) Others Last general elections: April 2000	300 158 125 11 6				
THE CURRENCY							
Monetary unit: Euro Irrevocable conversion rate (drachma per euro)	340.75	Currency units per US\$, average of daily figures: Year 2001 May 2002	1.1166 1.0891				

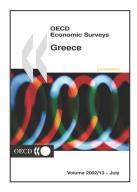
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