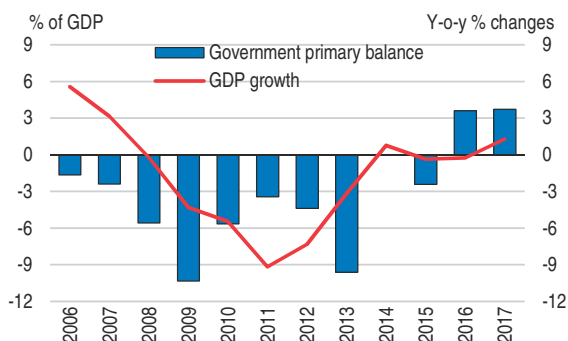


Executive summary

- *The economy is recovering and fiscal credibility has improved*
- *Well targeted social programmes will enhance social inclusion and intergenerational equity*
- *Despite significant reforms, cumbersome regulation and lack of finance hinder private investment*

The economy is recovering and fiscal credibility has improved

The primary budget balance is in surplus



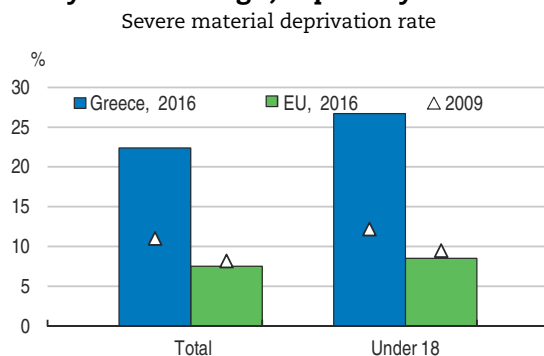
Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).

StatLink <http://dx.doi.org/10.1787/888933713118>

Greece is on track to recover from a deep depression. Reforms have gathered pace and fiscal consolidation has strengthened credibility, lowering uncertainty. Exports have led the expansion and labour market reforms have improved competitiveness. Employment is rising strongly while the external and fiscal imbalances are being addressed. Large fiscal consolidation has returned the primary balance to surplus. Tax expenditure has been reduced. Yet, the tax system relies on high rates and narrow bases, mainly due to tax evasion, hampering growth and creating inequities. The public debt remains high. Reducing the debt ratio will hinge on reforms to raise long term growth, maintaining prudent fiscal policy and additional debt restructuring as needed.

Well targeted social programmes will enhance social inclusion and intergenerational equity

Poverty rates are high, especially for children



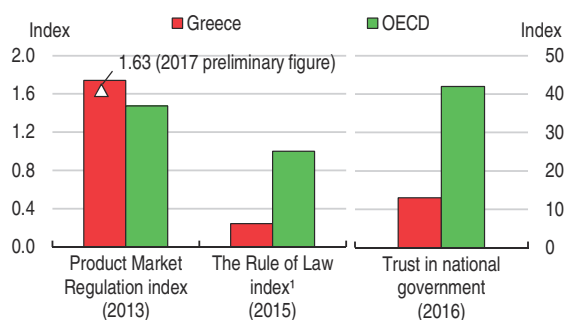
Source: Eurostat (2018), *EU Statistics on Income and Living Conditions* (database).

StatLink <http://dx.doi.org/10.1787/888933713137>

Labour market reforms have boosted employment, but wages and productivity remain depressed. Workers' skills often do not match workplaces' needs, trapping workers in low-skill and low-wage jobs. The long crisis combined with an ineffective social protection system caused a surge in poverty, especially among families with children, the young and unemployed. In-work poverty is also high. Better matching workers' skills with workplaces' needs, strengthening firms' incentives to innovate and train workers, and continuing social protection reforms will raise wages and reduce poverty. The roll-out of the guaranteed minimum income, the strengthening of family benefits and the provision of school meals are important steps to better protect poor households.

Despite significant reforms, cumbersome regulation and lack of finance hinder private investment

Improving the business environment would accelerate the investment recovery



1. Perceived confidence in the rules of society.

Source: OECD (2013), *Product Market Regulation Database*; World Bank (2017), *World Development Indicators Database*; and OECD (2017), *Government at Glance 2017*.

StatLink <http://dx.doi.org/10.1787/888933713156>

Real investment has dropped by 60% since its pre-crisis peak and remains depressed due to tight financial conditions and structural impediments. The government has improved important areas of the investment climate, including product markets and entry to professions, but more is required to revive investment. The new Investment Incentives Law and the ongoing design of a National Growth Strategy are initiatives in this direction. Further easing product market regulation, improving regulatory quality and transparency, continuing to fight corruption and addressing informality would improve the business environment, strengthen the rule of law and increase trust in the government. Reducing gradually but steadily non-performing loans and phasing out capital controls while preserving financial stability will improve financing conditions and boost confidence.

| MAIN FINDINGS | KEY RECOMMENDATIONS |
|--|---|
| Boosting sustainable growth and reducing the debt ratio | |
| <p>The economic recovery is strengthening and reforms are progressing. But poverty and inequality are still high, long-term growth prospects are modest and the public administration is still inefficient.</p> <p>Fiscal consolidation has led to large primary surpluses, well above fiscal targets, strengthening fiscal credibility. Tax collection has improved. However, informality is still high, and the tax system relies on high rates and narrow bases – mainly due to tax evasion – hindering growth. The public debt remains high and is a source of vulnerability that needs to be addressed.</p> | <p>Maintain the reform momentum focusing on implementation, enhancing public administration efficiency and continuing to fight corruption.</p> <p>Maintain the primary surplus agreed with official creditors and facilitate debt restructuring as needed.</p> <p>Reduce tax evasion by extending the use of risk analysis, targeted tax audits and strengthening incentives for voluntary tax compliance.</p> <p>Extend the obligation of having an electronic cash register to all self-employed and introduce e-invoicing.</p> <p>Undertake regular spending reviews and extensive use of performance budgeting.</p> |
| <p>The banks' governance framework has improved and capital ratios are well above regulatory thresholds. Yet, new bank governance practices have still to become entrenched. Non-performing loans, though decreasing, remain high and tax incentives for disposing of them can be strengthened.</p> | <p>Continue to align banks' governance standards with international best practices.</p> <p>Align tax incentives for disposing of non-performing loans with those of previous legislation and make them temporary.</p> <p>Fully implement out-of-court workout procedures and e-auctions.</p> |
| <p>Per-capita greenhouse gases emissions are below the OECD average. However, fossil fuel support measures are high. Landfill remains the most common form of waste disposal, many landfill sites are unregulated and in some areas urban waste-water treatment is below EU standards, contributing to high local pollution.</p> | <p>Phase out fossil-fuel support measures.</p> <p>Enforce EU standards for waste disposal and urban waste-water treatment.</p> |
| Expanding employment opportunities, improving job quality and reducing poverty | |
| <p>Poverty has risen dramatically among the young and unemployed due to the long crisis. Social programmes other than pensions are underfunded despite recent strengthening and improved targeting.</p> | <p>Continue spending reviews to reallocate resources to targeted social programmes.</p> <p>Further rationalise remaining non-targeted programmes.</p> <p>Consider introducing in-work benefits.</p> |
| <p>Collective wage agreements, including extension of agreements, have been suspended. Wages are now competitive but many workers still earn below the minimum wage, because of part-time contracts, and a growing share of jobs is temporary and low quality.</p> | <p>Introduce sectoral collective-wage bargaining covering broad working conditions and without automatic extensions.</p> <p>Ensure collective agreements are sufficiently flexible so that they can be adapted to specific firm-level conditions.</p> |
| <p>The minimum wage in the private sector is slightly below the OECD average relative to the median earnings. The legislated minimum wage setting process risks future adjustments that do not support employment growth and living standards.</p> | <p>Establish a commission of social partners and independent experts to recommend minimum wage adjustments.</p> |
| <p>The many years of schooling often do not translate into good educational results. Workers' skills do not match workplace needs and lag other countries. Few adults attend on-the-job training.</p> | <p>Introduce assessment frameworks and professional development schemes; gradually give schools and teachers greater pedagogical and managerial autonomy.</p> <p>Scale up post-secondary vocational education and adult education, linking them with labour market needs, and certify the quality of courses.</p> <p>Evaluate reskilling programmes, expand those that are successful and cost-effective and cancel those that are not.</p> |
| Improving the business environment and boosting investment | |
| <p>Sector-specific product market reforms have progressed but public administration inefficiencies as well as excessive red tape continue to mar the business environment.</p> | <p>Simplify regulatory impact assessments and build a network of civil servants with regulatory-quality expertise.</p> <p>Expand the scope of the “silence is consent” rule, <i>ex post</i> monitoring compliance and one-stop shops; ensure they have the resources to operate effectively.</p> |
| <p>The state asset management agency is operational, but an asset management strategy is yet to be fully developed. The land registry has been legislated but is not complete, and, along with other administrative hurdles, hampers the privatisation programme.</p> | <p>Finalise and implement the state asset management strategy and link it with the privatisation programme.</p> <p>Complete the land registry.</p> |
| <p>Insolvency proceedings are slow and complex because of yet to be implemented reforms and a slow judicial system.</p> | <p>Fully implement the legislated insolvency reforms.</p> <p>Ensure a sufficient number of well-trained insolvency professionals start operating soon.</p> |



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