

SPRING 2014 REFORM BAROMETER - GREECE

<i>Policy recommendations under economic adjustment programmes</i>		Q1: the recommendation is:	Q2: implementation effort is:	Detailed comments
1	A steady increase in the primary surplus towards the targets of 3.0% of GDP in 2015 and 4.5% of GDP by 2016, which would improve the debt dynamics	Important	Satisfactory	Achievement of a primary surplus is a milestone, but given the policy mistakes made in the past it has come at an unnecessary high cost and with less security for the future than an alternative policy mix could have achieved.
2	Significant efforts are needed to make the recently created semi-autonomous revenue administration fully operational and improve its effectiveness.	Important	Satisfactory	Some achievements should not be underestimated while the same applies also to the remaining challenges. Especially, tax laws remain of very poor quality and a drive to root out corruption remains very less vigorous than, for example, the drive against tax evasion - in spite of the critical implications corruption has both on tax evasion and the undermining of the rule of law.
3	Financial sector: A determined and effective implementation of the privatisation programme is necessary. The recapitalisation of the four core banks has been completed.	Important	Unsatisfactory	Restoring financing conditions to the private sector that will mark a significant improvement with respect to the current conditions that, by all accounts, constitute an all-encompassing systemic failure requires more than replenishing (with a long delay) the losses suffered by Greek banks through the PSI. The current strategy of waiting for these extreme circumstances to gradually peter out by themselves will probably be quoted in the future as an example on how not to handle such cases. The current strategy has had as a result that important reforms in the business environment and labour markets have not been able to lead to the positive results they could have secured if somehow normal financing conditions were prevailing in the private sector. This entails grave risks especially for the labour market, as explained in point 6 and 7, and it is disappointing that neither the government nor the Troika acknowledge sufficiently these risks and promote an comprehensive and appropriate strategy to deal with the challenges at hand.

4	Greece needs to step up efforts on its export strategy that facilitates trade, simplifies customs operations and strengthens its trade and investment promotion capacity.	Important	Unsatisfactory	The emphasis given on smaller exporters may miss the key role of larger exporters, whose competitiveness is currently undermined by the high cost of money and energy. The larger exporters are among the few companies that have the ability to respond quickly to increased demand, and as parts of ecosystems are able to provide liquidity to supplying SME communities which could also respond to increased demand from abroad, especially since their relation with larger companies implies that they already have the quality control systems in place that are needed to access demanding export markets. Very recent changes in the pricing of energy for industrial consumers may help to alleviate some of these concerns. In addition, a number of initiatives to streamline existing processes and that are related to the facilitation of exports and the operations of customs are being implemented. Still, the speed at which that is happening is slow, especially when taking into account that these initiatives have been agreed on a long time ago. In addition the implemented actions lack a momentum to introduce more substantial changes that amount to a broader redesign of the current administrative structure and that goes beyond streamlining some processes within the existing, often outdated, structures.
5	Further progress was made in monitoring and correcting public expenditure, by improving Public Financial Management (PFM), but weaknesses remain and more reforms are needed.	Extremely important	Unsatisfactory	The unevenness of the balance between the, more vigorous, drive to increase revenue (either through new taxes or through more efficient battling of tax evasion) and the, less vigorous, drive to reduce waste and excess expenditure remains one of the weakest points of the policy mix, and has not be addressed to a satisfactory degree up to now.
6	Acceleration and broadening of product market reforms is needed.	Extremely important	Unsatisfactory	The other weak point of the implemented policy mix and it has also not been addressed to a satisfactory degree up to now. While by now a useful mass of related reforms has been amassed, the poor assessment of the government's efforts follows from the fact that many of these reforms are recent and the long delay in their implementation labels them "too little too late" implying that much increased zeal is still needed with respect to reforms in this area. The need to create through these reforms job opportunities that will prevent the large pool of unemployed from losing their employability should only cement the determination to acknowledge that "time is of the essence" and to quickly advance this reform agenda.
7	Fighting unemployment continues to be a top priority. Greece has implemented ambitious labour market reforms and it is now vital to advance on the four pillars of the employment action plan: public works programme; internships for the young ("voucher scheme"); reform of the Public Employment Service (OAED); and strengthening vocational education and apprenticeships. Greece is seeking ways to improve the social safety net within the current budgetary envelope such as including the development of unemployment assistance for the long-term unemployed and the creation by January 2014 of a guaranteed minimum income scheme (on a pilot basis).	Extremely important	Unsatisfactory	Greek efforts must focus on combating youth unemployment by implementing specific measures on job creation. Greece had a serious problem with respect to the quality of the education system and its link with the job market even before the crisis. These problems have been aggravated during the past years, rather than being resolved to a sufficient degree. The danger that new unemployed, which are well in excess of 10% of the country's population, will become long term unemployed and ultimately unemployable should add a sense of urgency that appears to be missing.