

SPRING 2017 REFORM BAROMETER – GREECE

European Semester - Overall assessment of 2016 cycle

| | To what extent do you agree with these statements: | | Detailed comments |
|----|---|----------------|---|
| 1. | The National Reform Programme submitted by your Government (February/November 2016) is appropriate. | To some extent | The Greek NRP essentially is the MOU. While a number of useful key deliverables exist, especially as after 7 years, fiscal measures have kind of reached a level of exhaustion, progress still lacks the momentum and mass to take the country out of the crisis. This should change, and in addition issues like private sector bank financing should be a top priority, which is not the case. |
| 2. | The Commission's country specific recommendations for your country are appropriate. | To some extent | The same comments apply, as the MOU is the result of an agreement between the government and the official lenders. |
| 3. | The Commission assessment of reform implementation the year before is appropriate. | To some extent | There is a lack of acknowledgement of the fact that over-taxation has reached unproductive levels especially for private sector salaried employment, a lack of putting pressure on reforms that will really help the private sector, a tendency to tick boxes rather than ensure the realization of agreed reforms (e.g. handling of NPLs) and a lack of acknowledgment of the need to do something major now about private sector access to finance. |
| 4. | The Commission assessment of excessive imbalances (in-depth review) is appropriate. | To some extent | While the insistence on a clear path towards fiscal balance is indeed an absolute necessity, the insistence on high primary surpluses based mainly on tax increases and at the same time a sustained deleveraging of the private sector implies a framework that is not conducive to sustainable growth, at least if one is to consult economic theory and economic history. |

Assessment of Country Specific recommendations 2016 in detail

| | | Q1: The recommendation is | Q2: implementation on effort is: | Detailed comments |
|-------|---------------------------|---------------------------|----------------------------------|--|
| CSR 1 | Meeting of fiscal targets | Extremely important | Unsatisfactory | <p>Even though a blame game has been going on with the official lenders as to who advocated in the end the overemphasis on tax increases, once again during the 7th year of the programme implementation, fiscal adjustment has been based on tax and revenue increases, ranging from social security contribution increases for salaried employment in the private sector and self-employed, to wide-ranging indirect tax increases. Some, like a tax on wine, already fail to deliver, while the increase in VAT seems for now to deliver both as a result of the reduced exemptions in islands and rate increases. The increase in taxes on self-employed has led already since October 2016 to a steady decline in the number of self-employed, as they unregister with the tax authorities and in spite of the fact that for the majority of low earning self-employed apparently, the new law is even leading to a reduction of total payments to funds and tax authorities. Revenue for the social security fund for employees still is strong, but the increase in the tax wedge is most likely going to push during 2017 towards an increase in part-time employment that pays lower taxes and social security contributions as well as lower declared wages for full time employment, possibly weakening the strong performance that has been observed after the latest increase and in the wake of strong employment during the tourist season. The continuing push towards part time employment gained new momentum according to recent private sector labour market data and for December 2016.</p> |

| | | Q1: The recommendation is | Q2: implementation on effort is: | Detailed comments |
|-------|---|---------------------------|----------------------------------|---|
| CSR 2 | Resolution of Non-Performing Loans. Amend the corporate insolvency law in line with an agreed proposal. | Extremely important | Unsatisfactory | <p>Related legislation has been passed, in conformity with the demands of the impending review, but it fails to address the key impediments to the resolution of the NPLs. The issue of penal responsibilities of bank officers that write down debt was not addressed, in agreement with the representatives of the official lenders that apparently made here a concession to the government, and at the same time addressing the intricate tax issues related with a write-down, along with the key legislative reasons that cause the delay of pre-bankruptcy and bankruptcy procedure were not only not addressed, but also in agreement with the representatives of the official lenders are not even on the table. In the end, effectively "the box has been ticked", but the result on the ground will be non-existent, leading to potentially explosive problems in the private economy and the financial system. Similarly, a law to encourage out of court write offs remains as a prospect, and it is an open question to answer if it will offer an opportunity to address these issues along with a number of issues specific to this project, that will make it a success and finally make the efficient management of the NPLs a possibility.</p> |
| CSR 3 | In the context of the implementation of the EU target model for the electricity market, transpose into national legislation the high-level market design of EU target model for the electricity market. Also, review the gas release program, improving conditions of access for alternative suppliers and substantially increasing the quantities available. | Extremely important | Unsatisfactory | <p>Enacted into Law 4336/2015. Gradual implementation underway, but progress until now appears to be practically non-existent. The issue of over taxation of energy for industrial use remains mostly unresolved, and at the same time financial problems for the monopoly provider of energy are mounting rapidly.</p> |

| | | Q1: The recommendation is | Q2: implementation on effort is: | Detailed comments |
|-------|--|---------------------------|----------------------------------|---|
| CSR 4 | Adopt the remaining measures needed to fully implement the selected reforms on competition, investment licensing and administrative burden identified in the first round of the ex-post impact assessment. | Extremely important | Unsatisfactory | Measures on investment licencing, for simplification of Law 4262/2014, in public consultation (08/2016) but not yet enacted. Numerous recommendations of the OECD CAT application, but most of them are rather minor interventions that will not have a major impact or are negated by wrong measures, as in the case of pharmaceuticals. The use of RIA to design or amend legislation still has much room for improvement. |
| CSR 5 | Anti-corruption. Amend and implement the legal framework of the financing of political parties on key items. | Extremely important | No Progress | The drive against corruption remains extremely weak, and is never a priority of the assessment of implementation progress and stands out in its weakness when compared to the relentless emphasis on over taxation and revenue increases through increasing tax burden on the same honest taxpayers. A collaboration with the OECD on the topic should be used to add some substance to this reform item. |
| CSR 6 | Revenue Agency. Adopt measures to provide for adequate resources so as to allow the Agency to operate effectively. | Important | Mixed | The related legislation has passed, the authority now operates and it remains to be seen if this can translate in increased efficiency, as tax law implementation and collection has been separated from the design of economic policy, ensuring at least in theory a reduction of political influence and ultimately a better, more predictable and transparent implementation of tax laws and design of economic policy at the same time. |

| | | Q1: The recommendation is | Q2: implementation on effort is: | Detailed comments |
|-------|--|-------------------------------|----------------------------------|--|
| CSR 7 | Education. Prepare a three-year Education Action Plan. | Contrary to Federation Advice | No Progress | A comprehensive approach to improve the performance of education, at all levels, with a view to increase autonomy along with assessment and evaluation within a setting of close collaboration of all involved parties is not an aim of the government, and pressure to do so as part of the programme reviews is almost non-existent. For such an important issue, and given the extremely inefficient use of resources in the extremely centralized public education system, this is a pity. |

Reform Progress in your Member State in 2016

How would you assess reform progress in 2016, for the following broad areas:

| | |
|--|----------------|
| Taxation and Public Finances | Unsatisfactory |
| Business environment (regulation/access to markets) | Unsatisfactory |
| Labour market | Mixed |
| Innovation and skills | No Progress |
| Access to finance and Financial stability | Unsatisfactory |

Is there any example of an economic reform, specific to your country that BUSINESSEUROPE could highlight in its 2017 Reform Barometer?

The extensive pension reform was, once again, implemented in a socially unfair way, favouring the older generation of especially public sector and professional group insiders and passing on the costs in particular to the younger private sector employees, that tend to migrate once they have higher skills. Product market reforms are lagging and developments on the front of managing the backlog of the NPLs fail to deal in a comprehensive and decisive way with the institutional impediments at hand and that are distributed in a piecemeal fashion among the bankruptcy, pre-bankruptcy, tax and penal laws. Progress in key deliverables that are related to privatisation reflect procedural steps that will not be felt in the market and will not yield to visible and tangible benefits for companies in the sense of a reduction of non-wage costs via increased productivity of, say, infrastructure and energy markets. Indicatively, the process of handing over 14 privatised regional ports to the winner of the tender is slow, resulting in, essentially, the start of the related renovation projects being delayed for one tourist season, as at this time only limited interventions can be planned, licenced and made before the next summer. A number of reforms were implemented as part of the OECD CAT toolkit application, but the interventions were either too late and expected positive returns are not made obvious or of a kind that will have a relative small positive improvement. In some cases, such is the case of pharmaceuticals, reforms were offset by gross policy mistakes that fail blatantly to deal with the distortions in the market and essentially have a high likelihood to decimate the domestic pharma industry and at the same time force international pharma producers to significantly delay introduction of new treatments to the Greek market. So, unfortunately, for this year there is no success story to showcase in key areas in which we would very much like to do so- with two potential exceptions. First, it seems that gradually the legislation and infrastructure for e-procurement is having an increasing impact on the core of the national procurement program - with broader rollout say among pharma still pending. But this is a potentially important step that has taken over a decade to take, so it should be mentioned. In addition, the separation of tax collection and economic policy design may indeed cure many of the problems of tax policy design and implementation that were observed in the past, but the new framework has first to prove itself in the context of the administrative and political reality at hand.

Credits are to be given thought on the actions taken for the simplification of investment licencing (Dec 2016 framework law was issued) in specific sectors and on some additional measures facilitating the opening of a business through the establishment of one stop shop.

Reform priorities for 2017

| | I. Policy Area | II. Concrete Recommendations | III. Are the proposed recommendations already in the agenda of your Government? |
|-------------------|--|--|---|
| Priority 1 | Bank lending conditions | The country is exposed to the implications of a long term political and economic crisis. At the same time the banks are supported through short term support from the euro system. This creates a strong pressure to deleverage the private sector and that hinders a recovery, with significant indirect implications ranging from the issue of NPLs to the undermining of public revenue. A working solution, respecting the ECB mandate but also taking into account reality, should be worked out to alleviate the pressure stemming from the mismatch. At the same time the key impediments to the resolution of the NPLs should be removed, i.e. the related box on the review list should be unticked and the legislators should return to the design board in view of a) facilitating the write down of debts, b) remove the obstacles that are posed by the tax treatment of losses incurred by suppliers and banks that write down debts especially outside an full bankruptcy procedure and in view of the transferability of the tax credit across time and corporate transformations and c) speed up and facilitate the ability to manage, dispose and restructure assets along the guidelines offered by the involved lenders in view of rescuing value. | no |
| Priority 2 | Making work-pay: interplay of tax and benefit system | Over taxation of especially families that work in the private sector strongly discourages the growth of employment, with significant indirect implications on public revenue, social coherence and growth. The tax wedge especially for working parents in the private sector has to decline by at least 10pp on average in order to encourage salaried employment in competitive, well organized, tax and social security paying, exporting and innovative companies. | no |

| | I. Policy Area | II. Concrete Recommendations | III. Are the proposed recommendations already in the agenda of your Government? |
|-------------------|--|--|--|
| Priority 3 | Tax reforms | Wide ranging issues in the tax laws, tax rates and their implementation places a destructive burden on growth and employment, with detrimental effects as far as the targets of the adjustment program are concerned. Vetting and streamlining, this in close collaboration with the private sector and through related committees, should remove these disincentives while at the same time protecting the achievement of fiscal targets, by reducing unproductively high rates and rationalizing, clarifying and stabilizing the tax laws and their implementation practices. At the same time, the drive against corruption remains, strangely, weak, and should become at least as strong as the drive against tax evasion and clandestine employment. The engagement of the OECD in the anti-corruption agenda should be used to make progress of substance on the matter. | no |
| Priority 4 | Business Environment - Regulatory barriers to entrepreneurship | While a lot of progress has been achieved in the past years, there remain many issues in areas where reforms have been implemented (e.g. licencing and spatial planning) and there also remain areas where no progress is planned, ranging from a comprehensive approach to dealing with all issues in the pre-bankruptcy and bankruptcy setting, a full assessment of implemented and pending reforms in justice, a vetting of the non-bank financing framework within the context of the CMU, a vetting of national tax legislation in view of the CCTB and common VAT form, a full assessment of the competencies and structure of market supervising authorities and the meaningful as well as comprehensive advancement of the better regulation agenda. Also, privatisations are still driven by fiscal targets and not their estimated impact on the improvement of non-wage competitiveness of the private sector. | yes |

| | I. Policy Area | II. Concrete Recommendations | III. Are the proposed recommendations already in the agenda of your Government? |
|-------------------|-----------------------|---|--|
| Priority 5 | R&D and Innovation | A comprehensive assessment and the formulation of a related strategy to remove impediments to business R&D, to collaboration of business with publicly financed research centres and all ancillary aspects that need to be working and in place is still missing. The related vetting should include all stages, like the cost and flexibility of a limited liability corporate entity with freely transferable shares, tax handling of losses from innovative investment and flexible offsetting with the rare high return success cases, agreement formation between businesses and universities, the infrastructure and framework for IP submission and protection, the flexibility to remunerate employees of start-ups and the participation in these of academics that work in publicly funded institutions, the framework for non-bank financing at all stages (angel, VC, etc.), the issue of charges like social security contributions to officers of start-ups, the sanctity of contracts and the predictability of enforcement through the efficiency of the judiciary. | yes |