SPRING 2019 REFORM BAROMETER – GREECE

European Semester - Overall assessment of 2018 cycle

	To what extent do you agree with these statements:		Detailed comments
1.	The National Reform Programme submitted by your Government (March 2018) is appropriate.	To some extent	After exiting the adjustment programmes, Greece is entering the Semester, but 2019 will be the first full year in the semester. For the meantime, regarding the assessment for the conclusion of the programme and the post assessment era, and while progress is made in numerous areas, a "box ticking" mentality seems to become even more entrenched. Important reforms, that remained unfinished during the programme, seem to have lost even more their sense of urgency as the country and Europe think mainly of oncoming elections. One can identify thus crucial loose ends in the process with the pre-bankruptcy framework and the licensing of mining and quarrying activities being a good example. At the same time important reforms, e.g. reforms of network industries, are either marred by partial implementation or dangerously delayed. Greece has exited the programme but the need of a more determined initiative to end the exclusion of Greek companies from the Single Market for Financial Services is still not acknowledged, nor is the fact that the all-encompassing overtaxation has become unproductive and that it directly undermines the evolution of a high-quality tax base. Areas that are important for long term growth, like education, public health, social services, better regulation agenda, speed and transparency of the working of the judiciary and transparency in the licensing process of high profile and smaller investments are still not reviving the attention they deserve or are lagging in implementation forming the rear-guard of the structural adjustment programme. An evidence-based approach to the post MOU status of industrial relations is also missing, as well as an evaluation of the need to rationalize especially the tax wedge on salaried private sector labour and the tax treatment of working families.
2.	The Commission's country specific recommendations for your country are appropriate.	To some extent	The same as above applies

	To what extent do you agree with these statements:		**Detailed comments**
3.	The Commission assessment of reform implementation the year before is appropriate.	To some extent	It has to be acknowledged that through the accelerated "box ticking" process there is progress on a number of issues, with the e-procurement platform and small & simple investment licensing cases providing an example. Especially in the area of the implementation of tax law a number of high-profile tertiary court decisions have forced, after a protracted period of resistance, the authorities to acknowledge some level of certainty with respect to the statute of limitation, but unreasonably high legal uncertainty remains on a number of other issues. A recent circular by the independent tax authority that retracts a recent related circular, based on a Council of State opinion, not to apply a solidarity surcharge to income earned outside the tax jurisdiction of the Hellenic republic is a good indictive example. That said, the now independent tax authorities have shown an unprecedented, when compared to past decades, willingness to discuss practical problems and to offer solutions on a number of technical issues, even if these are sometimes limited within their realm of competencies that are of course subordinate to the ones of the legislator. On the other hand, for example, with respect to the evolution of the energy market towards the "New Market Design" and the "Target Model" numerous loose ends and a fast evaporating window of opportunity raise ever higher concerns, given that one more year of inaction has been observed.

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	To what extent do you agree with these statements:		Detailed comments
4.	The Commission assessment of excessive imbalances (in-depth review) is appropriate.	Not enough	While the emphasis on the agreed surpluses for the post 2018 period is understandable, especially given the weaknesses in the ability of the MoU to solve problems in a way that go beyond box-ticking and that are immediately visible to the business community, major worries are not discussed or addressed. In particular it is not even part of the discourse if a country of medium institutional maturity that carries the legacy of a depression can recover with an all-encompassing taxation that exceeds even highly developed and institutionally mature countries at the core of Europe. Nor is it acknowledged that in the post PSI era, high surpluses that stem from this high taxation will constitute steady and large liquidity outflows from a bank financing-based economy with a compromised deposit base, capital controls and that is excluded for almost a decade from the Single Market for Financial Services. As the banks execute business plans and NPL management plans that focus on the deleveraging of the economy, the liquidity shortage has affected the corporate landscape. As the deleveraging is now almost complete, the challenge has moved from a financial engineering exercise that would have averted an unnecessary deepening of the depression, and now has more to do with how to finance activities that can contribute to sustainable growth. No appropriate measures are included in the narrative of the programme or the policy design on these crucial issues. That said, it is of course acknowledged that there is a need to build trust, and thus the ranking offered is 4 in spite of the abovementioned comments. Evidence of a gradual movement of the job market towards the low end and the entrenchment of the permanent emigration of high-skill workforce along with indications that investments that are most crucial, along key nodes of value chains, and for all company sizes systematically now take place outside the country along with the clear insistence to maintain the set fiscal targets irrespectively of economic developments downgrades the evaluation of this point with respect to last year. It has to be added, that among the remaining members of the initial troika and mainly the European Commission there is now prevailing a complacency that strongly dismisses concerns about the inability of the country to reach the medium term in a good shape under the described circumstances, and sanguinely postpones all discussions regarding these issues beyond the medium term.

Assessment of Country Specific recommendations 2018 in detail

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR **1**	Presentation of a Growth strategy	Extremely important	Mixed	In the wake of a number of disappointing attempts by previous governments, a growth strategy was presented in 2018 but it retains key weaknesses and omissions in spite of some good points, and for being surely a more comprehensive effort when compared to past governmental efforts. Notably, it acknowledges head on weaknesses in the administration, public health and education as well as the justice system. Contrary to older attempts it goes often into detail or refers to detailed plans that exist or are worked on separate subjects mentioned in the plan, thus demonstrating at least a willingness to work out in more detail issues that by default remain at the level of general reference in such a document. Also, EU targets are often mentioned, thus signalling at least a first self-motivated attempt to align Greek policies with EU targets. With respect to the growth strategy that was presented, its key weaknesses are the following: a) It does not acknowledge the impact of the all-encompassing overtaxation and especially the structural disincentive it gives to the growth of private sector salaried employment vs other forms of employment (state, self-employed) and early retirement or unemployment, b) it does not acknowledge the adverse impact that the roll out of the post MOU industrial relations framework agreed between the lenders and the government will have on private sector employment, c) it does not acknowledge, nor offer any commensurate plans of action, the impact of the now entrenched challenges of the financial sector and the resulting inability of large parts of the private sector to access at competitive terms needed liquidity, neither does it include d) a coherent plan to adopt the better regulation agenda and e) to improve the quality of governance. It also remains though that for now many weaknesses remain in the administration and the quality of its cooperation with EU bodies and the ability to use the expertise they contain remains limited.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR **2**	Anti - corruption	Extremely important	Unsatisfactory	Anti - corruption remains a weak priority, in spite of the fact that is a factor that potentially or clearly undermines progress on almost all fronts of the reform agenda.
CSR **3**	Better regulation	Extremely important	Unsatisfactory	The capacity of the administration and the political leadership to implement properly all dimensions of the better regulation agenda remains weak. The expertise built up by the technocrats of the troika has not led to a better integration of the Greek public administration into the expertise available at EU bodies and a deepening of the relationships, at all levels, that support the integration of other EU members in the processes of the European Semester. Thus, this critical area appears to be one of the points of the programme in which the least progress has been achieved with respect to what is needed to ensure that in the post MoU era the country can ensure the convergence of the quality of its regulations towards EU standards. Following the prescribed deliverables and their implementation since the first MoU and till now the grudging nature of progress in this area is dismally revealed, while the deliverables set for 2018 and their comparison with what happens in reality delegates this key policy initiative to a champion of the box-ticking already mentioned. The area is also identified as a top priority by the Commission.
CSR **4**	Progress of energy market towards the New Market Design and the Target Model	Extremely important	Unsatisfactory	A comprehensive strategy to unravel the burdens of past policy inadequacies in a way that will cause the least overall damage is still lacking, while time is running out even faster as by now, we are already in 2019. While there has been progress, especially in some aspects of the natural gas market, the maturing of the key preconditions that would permit a successful transition to the Target Model for the electricity market still is lagging dangerously. An honest and bold approach is needed here, given the stakes of not managing the challenges bestowed by the sustained inefficiencies, and whose consequences only become more threatening as needless inactivity persists. A well-thought out and balanced mix of energy and flexible capacity to trigger new more efficient investments and demand-side tools to improve market conditions are pertinent.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR **5**	Investment licensing	Extremely important	Mixed	Effort is observed in some areas, but at the same time progress in other areas is slow. In some cases, e.g. in the case of the licencing of mining activities, legislative initiatives are not sufficiently thought out with obvious weaknesses and omissions while at the same time the administrative capacity to support the licencing process has been eroded to dangerously low levels.
CSR **6**	Tax Policy reforms	Extremely important	Unsatisfactory	A strategic decision has been made, and accepted by the troika, to front - load tax increases and to make future tax rationalization conditional on fiscal over-performance. A clause to reduce expenditure in the case tax increases do not deliver safeguards the achievement of fiscal targets. The design of this approach, as opposed to a front loading of expenditure reduction with an option for them to increase again in the case fiscal targets are exceeded, is deeply flawed in the sense that it can permanently erode the tax base and hollow out the density of the networks of the corporate landscape, and especially the most lucrative for tax revenue and crucial for value chains parts of it. The 2018 budget execution, with the shortfall in revenue being compensated with by an accelerated reduction of expenditure, proves the point. The prospect of not reducing pensions and possibly the unconditional tax rebate has, erroneously, been labelled a fiscal and not structural measure by top EU officials. In reality these issues touch the core of the structural causes of the imbalances and weaknesses of the Greek economy and society, as the form the foundation of the incentives/disincentives structure that hold back, via high taxation and social security contributions, salaried employment and growth in the private sector and at the same time offer such strong incentives to seek early retirement especially from the point of view of government and SOE employees and to prefer self-employment and micro entrepreneurship that is more compatible with tax evasion and informality. An already legislated reduction in corporate income taxation has been stretched out over the next years, with a marginal increase in the finally envisioned reduction. On the other hand, the independent tax authorities have issued a number of circulars that deal in a pragmatic way with practical problems that have to do with the daily interaction of the authorities and taxpayers, but the impact of these positive developments does not suffice at this time to counterbalance the developments at the tax policy level and thus justify a "mixed progress" mark.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR **7**	Labour markets	Extremely important	Unsatisfactory	The establishment of a well-functioning labour market, requires modernizing the collective bargaining framework by limiting compulsory arbitration procedures and making them compatible with the ILO standards on free collective bargaining. It also requires introducing reliable checks on the representativeness of sectoral collective agreements, to safeguard that wage formation is conducive to free collective bargaining, productive growth and competitiveness. Reverting to a centralized wage setting system will have to be accompanied with an elegant design in order to avoid a reversion to the environment that contributed pivotally towards the build-up of the imbalances that triggered the 2010 crisis in Greece. At the beginning of 2019, and with announcements regarding the imminent increase in the minimum wage, interviews by government officials demonstrate a lack of acknowledgment of key data that reflects the reality of the labour market, and factually erroneous arguments are made to prepare for the announcement of a minimum wage raise, and of the handling of sectoral and occupational wage agreements, that suggest strongly, especially during the second initiative, the imminent loss of the wage competitiveness improvements made during the last painful years and the disconnection of pay and productivity for remuneration above the minimum wage, but also an increase in the challenges faced by smaller companies that usually hire employees with the minimum wage or through flexible or even atypical work arrangements.

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Reform Progress in your Member State in 2018

How would you assess reform progress in 2018, for the following broad areas:

Taxation and Public Finances	Unsatisfactory
Business environment (regulation/access to markets)	Unsatisfactory
Labour market	Unsatisfactory
Innovation and skills	Unsatisfactory
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 2019 Reform Barometer?

Progress with the concession of 14 regional airports, the privatisation of the Thessaloniki port and extensions of the concession of the Pireous port, to include the shipyard zone and the cruise terminal, among others. Related investment that will positively affect infrastructure is progressing now fast.

Reform priorities for 2019

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
Priority 1	Bank lending conditions	Uncertainty stemming from policy unpredictability and from potential risks related to the inability of the country to meet fiscal targets in the long term, and not only short term, and that relate to EMU membership have to be put to zero, and then in addition active measures to improve access to finance for the largely SME populated Greek corporate landscape have to be taken. An all-encompassing improvement of the whole framework relating to bankruptcy, pre-bankruptcy, a second change with respect to debts towards the state that extends to managers of corporations and the tax treatment of write-offs (especially VAT that has been paid by creditors on claims that are written down or off) has to be implemented, and that goes beyond what has been done so far, as part of the programme, and what is expected to be announced in early 2019. This will support, in a much-needed way, the effort of the banks to clear the legacy of the crisis that takes the form of the NPEs. Part of this approach has to be a redesign of the OCW so that it can handle in a speedy and truly out of court way simple cases in which the state and banks are the main creditors, finishing touches in the pre-bankruptcy process of more complex cases that cannot be handled by the OCW and that should also fully benefit from the write down of state claims promised in the OCW and a rationalization of very strong indirect super priorities that are related to the unwillingness of the state to write down its own claims, the reimburse taxes paid on claims that are written down and in particular with the unconditional personal liability managers that act with caution and good faith have with respect to the debts of the company towards the state. The latter change could be linked to the establishment of a well-designed early warning mechanism and its timely and proper use. In addition, companies that are de facto bankrupt should be automatically stricken from the registry and a cheap to use registry of secured claims should be established.	yes

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
Priority 2	Tax reforms	A rationalization of taxes has to place rates somehow between low tax countries and the mature countries of the core of the EU. This has to happen, given the need to meet agreed short-term fiscal targets, in a staggered process that starts with reducing the tax wedge for salaried labour in the private sector, key excise taxes that hurt production and key services or that feed the black market, some excesses of the recurrent property taxes and an elimination of excesses in the cumulative taxation of profits and distributed dividends. Tax uncertainty and uncertainty regarding the implementation rules of tax laws are a cost to the market, but offer the government no revenue and thus should be drastically reduced. The ability to carry forward losses should be aligned with the prevalent 10-year benchmark or the EU best practice of unlimited time, that is also put forward by the proposed CCTB directive. A lack of urgency regarding the issue, and acknowledgement that not dealing with it will seriously undermine the country's ability to form and sustain a useful tax base, is observed also among Commission members. Recently, a pre-legislated reduction of corporate income tax for 2019 by 3pp was spread out to four annual reductions by 1pp, this depriving the market from an immediate relief, while reductions in the tax wedge apply only to self-employed and farmers, thus not addressing the structural disincentive to salaried private sector employment.	no
Priority 3	Wage bargaining and wage-setting policies	There is a need to devise a post MoU framework for industrial relations that does not repeat the mistakes of the past, and that is based on solid evidence and an honest and open discussion and social dialogue. As said, the establishment of a well-functioning labour market, requires modernizing the collective bargaining framework by limiting compulsory arbitration procedures and making them compatible with the ILO standards on free collective bargaining. It also requires introducing reliable checks on the representativeness of sectoral collective agreements, to safeguard that wage formation is conducive to free collective bargaining, productive growth and competitiveness. So far, the evidence at hand points, unfortunately, in exactly the opposite direction, and the imminent consequences appear not to be acknowledged at the national and European political leadership level.	no

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
Priority 4	Public sector efficiency	Given the high levels of taxation, the drastic improvement of the quality of services offered by the public sector is key, along with a rationalization of tax excesses, to quickly bring the currently extremely disadvantageous ratio of tax rates to retributive services provided in return to some levels that will allow the country to retain & attract talent and investment. While a stated goal of the government, so far implementation is not in line with the need to quickly reduce the wide gap between the implemented taxes and the efficiency of the public sector. The prospect of the post MoU period will place higher demands on the ability of the administration to design and implement quality policies on its own and to integrate seamlessly in the European Semester. A key area in which the improved quality of public sector efficiency should quickly become visible is the area of business-university collaboration for R&D and innovation, but developments in the right direction are missing even at a time EU funds are going to greatly increase the liquidity situation in VC community.	no
Priority 5	Business Environment - Regulatory barriers to entrepreneurship	It is crucial that we speed up investment licensing reforms. The inspection & controls framework is designed to be activated after 2 years in the best-case scenario; also, the recently legislated amendments on simplification of quarrying & mining licensing procedures are paired with the failure to improve the key environmental licensing process and the persistence of a number of clauses that are targeted to block certain investments, but in the process also undermine the licensing process in general. In addition, a new license renewal process leads to uncertainty for investors and has the potential to evolve into a corruption hotbed; and there is no provision for the abolishment of the installation license as was originally anticipated. On the issue of Business Parks, progress has to continue and the input of market participants heeded. On special planning reform, the approval of new land uses and the issuing of all secondary legislation deriving from Law 4447/2016 still needs to be fully implemented. There is continuing progress though in other areas like the ones covered by the OECD CAT, and that should be kept up. The key issue of market supervision and the coordination of all types of audits has been the subject of a general legislative provision, that still leaves the difficult task of mapping and coordination all competencies of authorities that supervise and their penalty grid unfinished, even though the issue is now to be mapped by the World Bank which is an important first step. The market supervision mechanism is such a key dimension of the administration that needs to be modernized because it is a prerequisite for the simplified licensing mechanisms to function properly.	yes