

Greek economic reforms: Building a solid environment for growth



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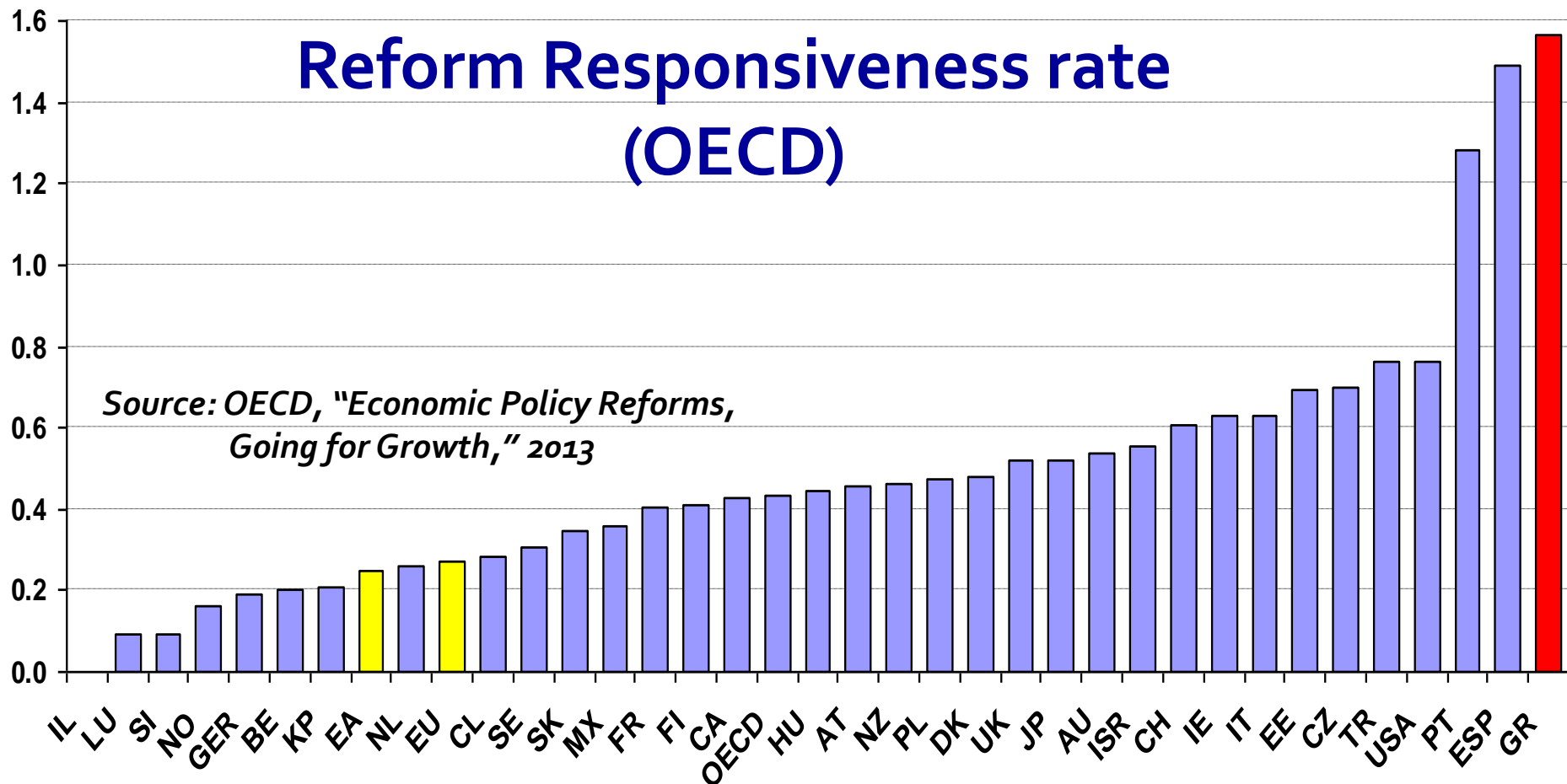
REFORMS ARE IMPORTANT FOR LONG-TERM GROWTH

They

- ❖ Cure the disequilibria and lead to a new growth model
 - ❖ Improve transparency & the rule of law, strengthening institutions
 - ❖ Minimize bureaucracy and obstacles to business
 - ❖ Create a level playing field among businesses
 - ❖ Align rewards for work effort to productivity
 - ❖ Create a framework for stable & long-lasting economic decision making
-
- ✓ Following the MoU in May 2010, the reform effort had a **strong beginning** from May to October
 - ✓ Then **it decelerated** as special interest groups resisted them and the political establishment had not yet fully realized the **“regime shift”** that was taking place in the country’s growth model
 - ✓ Reforms **picked up momentum** again in November 2011, when the first coalition government was formed
 - ✓ Today, under a second coalition government, reforms **continue strongly** as the population stands behind them

GREECE AS A LEADER IN REFORMS AMONG OECD COUNTRIES

Reform Responsiveness rate (OECD)



Note: The index is the ratio of the total number of years in which some action is taken to address policy priorities recommended by the OECD to the total number of years in which policy priorities have been identified. To account for the fact that some policy areas appear to be more difficult to reform than others, responsiveness on each individual priority is weighed by the average responsiveness to priorities in this area across the OECD countries.

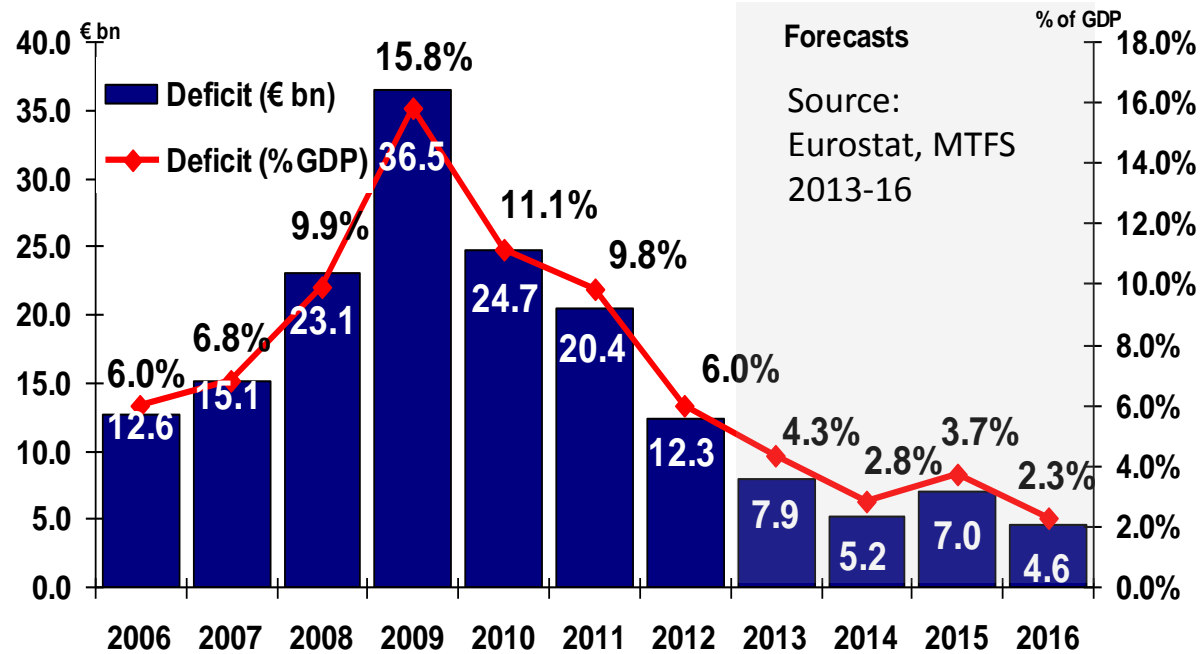
REFORMS & ECONOMIC DISEQUILIBRIA

REFORMS

- I. ADDRESS THE FISCAL DISEQUILIBRIUM IN GREECE
- II. ADDRESS THE COMPETITIVENESS DISEQUILIBRIUM
- III. CREATE A CONDUCIVE –TO - BUSINESS ENVIRONMENT

I. FISCAL DISEQUILIBRIUM BEING ADDRESSED: DRASTIC CONSOLIDATION AFTER 2009

- ❖ From 2009 to 2012 expenditure was cut drastically
- ❖ Revenues remained high despite the ~20% cumulative recession
- ❖ Primary balance improved by 9.0 pp of GDP
- ❖ Yet taxes have fallen on the usual suspects, the law-abiding citizens



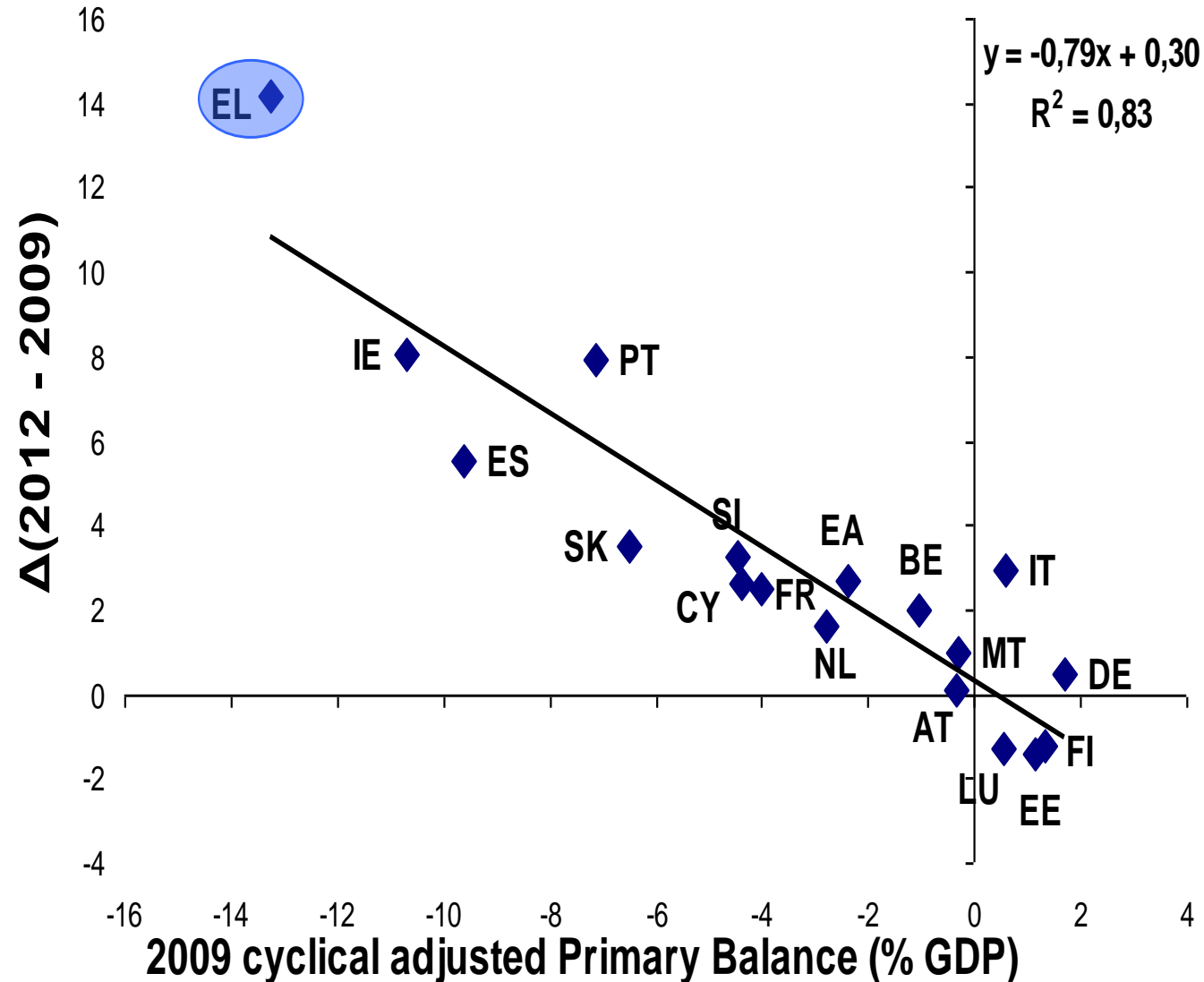
Primary surplus targets (%GDP)

2013	0.0
2014	1.5
2015	3.0
2016	4.5

	Revenue (€bn)	Primary Expenditure (€bn)	Wages, Pensions, Benefits (€bn, % of Primary Exp.)	Primary Deficit (% GDP)	Total Deficit (% GDP)
2009	88.6	112.8	80.0 (70.9%)	-10.5	-15.6
2010	90.2	101.1	75.0 (74.2%)	-4.9	-10.8
2011	88.1	93.0	73.1 (78.6%)	-2.3	-9.5
2012	85.0	87.9	69.0 (78.5%)	-1.5	-6.6

I. FISCAL DISEQUILIBRIUM BEING ADDRESSED: DRASTIC CONSOLIDATION AFTER 2009

- ❖ On a cyclically adjusted basis, Greek consolidation is even more impressive compared to other countries, as cumulative recession reached an unprecedented 20%



I. FISCAL DISEQUILIBRIUM ADDRESSED ALSO WITH REFORMS

- ✓ **Fiscal consolidation was originally addressed mainly through wage & pension cuts, as well as other public expenses**
- ✓ **Reforms, however, also contributed to fiscal consolidation**

PENSION REFORMS addressed a huge hidden fiscal bubble

- ❖ Future rise in public pension expenditure not to exceed 2.5 % of GDP or the EU-wide average of 14% - (5/2010)
- ❖ Retirement age in line with life expectancy, already 67 from 65 previously; benefits linked to lifetime contribution
- ❖ Disincentives for early retirement, overhaul of the list of difficult and hazardous occupations, Disability criteria and rules revised (since Sept. 2011)

HEALTH CARE REFORMS accelerated in 2012

- ❖ Health expenditure not to exceed 6% of GDP (2nd MoU)
- ❖ Social security funds merged into one (EOPYY), equalizing benefits and contributions
- ❖ Major pharmaceutical expense reduction (2nd MoU)
- ❖ Increased contribution of insured

Please note that the very big upward deficit revision of 2009 was partly due to cumulated health expenditure arrears, which were recorded at the time

I. FISCAL DISEQUILIBRIUM ADDRESSED WITH A WIDE RANGE OF ADDITIONAL REFORMS

PUBLIC SECTOR REFORMS began in 2010

- ❖ Single Payment Authority established
- ❖ Wage grid adopted aimed at creating simplified uniformed remuneration system
- ❖ Census of civil servants (717,792 employees on public payroll)
- ❖ Local government reform

STRUCTURAL FISCAL REFORMS yet to reach their full potential

- ❖ Control of general government expenditure (electronic commitment registers for GG entities, Medium term fiscal framework, etc).
- ❖ **Delayed but running:** Privatization (1.6 bn revenues until end of 2012, for 2013,2014, 2015 and 2016 are €2,6 bn,€2,6 bn, €1,1 bn & €3,4 bn respectively). Those receipts affect the level of Debt
- ❖ **Delayed but running:** Tax Policy (Update of income taxation legislation in order to share tax burden more equally)
- ❖ **Delayed but running:** Revenue Administration (Secretary for Public Revenue Administration, Specialized Units to audit high wealth individuals, new IT tools and centralization of the revenue collection process, etc.)

I. REMAINING REFORMS AIMING TO ADDRESS THE FISCAL DISEQUILIBRIUM

ON-GOING REFORMS to be completed soon

- ❖ Simplification of income tax code
- ❖ Complete Restructuring of the tax system (closure of offices, increase number of inspectors to 1.000 from 235, audits of large tax payers not operational yet)
- ❖ IT system that interconnects tax offices
- ❖ Anti-corruption plan (penalties for tax evasion, protection of whistle blowers, empower the internal audit of tax offices)
- ❖ Implementation of the decisions on redundant staff - lay-offs
- ❖ Speed-up of the public procurement framework (pilot process already in hospitals)
- ❖ More pharmaceutical spending reduction (generics to reach 40% use from current ~ 18%)
- ❖ Double entry accrual accounting in all hospitals
- ❖ Legal clearance of real estate for future privatizations

II. COMPETITIVENESS DISEQUILIBRIUM PARTLY ADDRESSED: LABOR REFORMS, PROGRESS IN ULCs

NOMINAL UNIT LABOR COSTS

% Δ	GR	CY	DE	FR	IT	ES	IE	PT	US	EA17	EU27
2000 -											
2009	33.2	31.2	5.6	22.4	31.4	33.8	34.2	26.8	18.2	21.0	23.2
2009 -											
2012	-8.1	4.2	3.1	4.0	3.4	-6.6	-9.4	-5.8	2.7	1.6	2.3

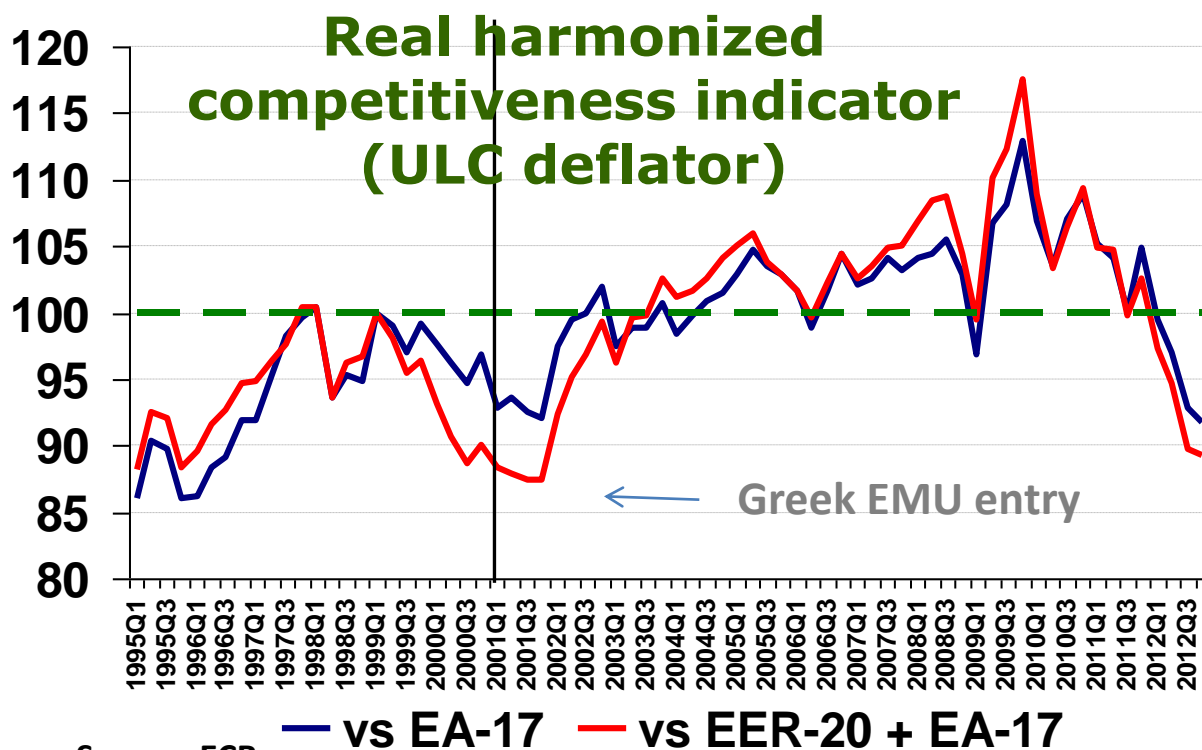
Source: European Commission

❖ Labor reforms took priority over product & service market reforms

❖ Unit labor costs in Greece are adjusting faster than in Spain, Portugal or Cyprus, similar to Ireland's

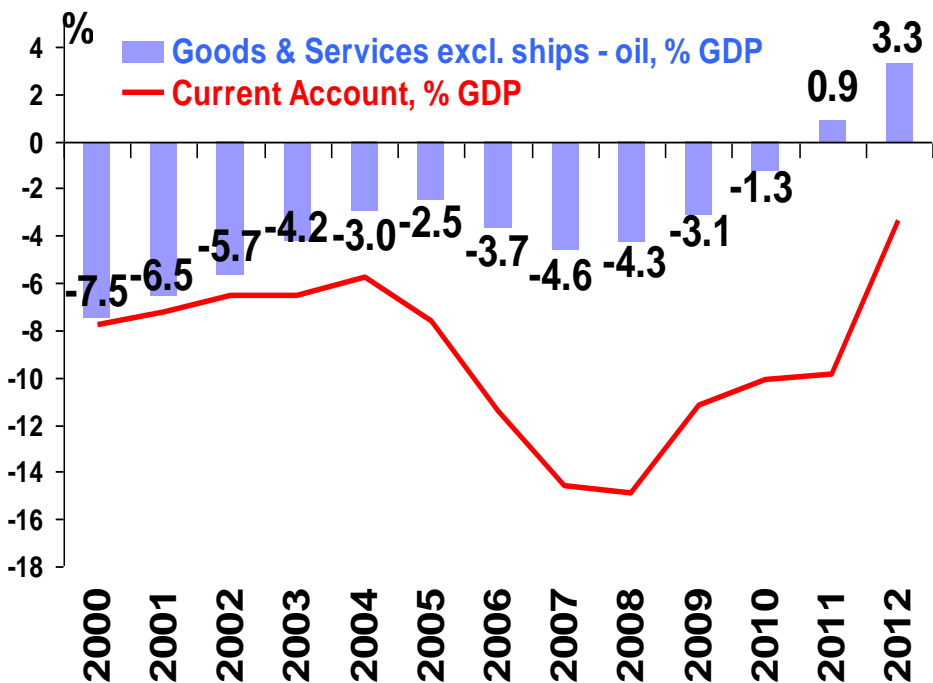
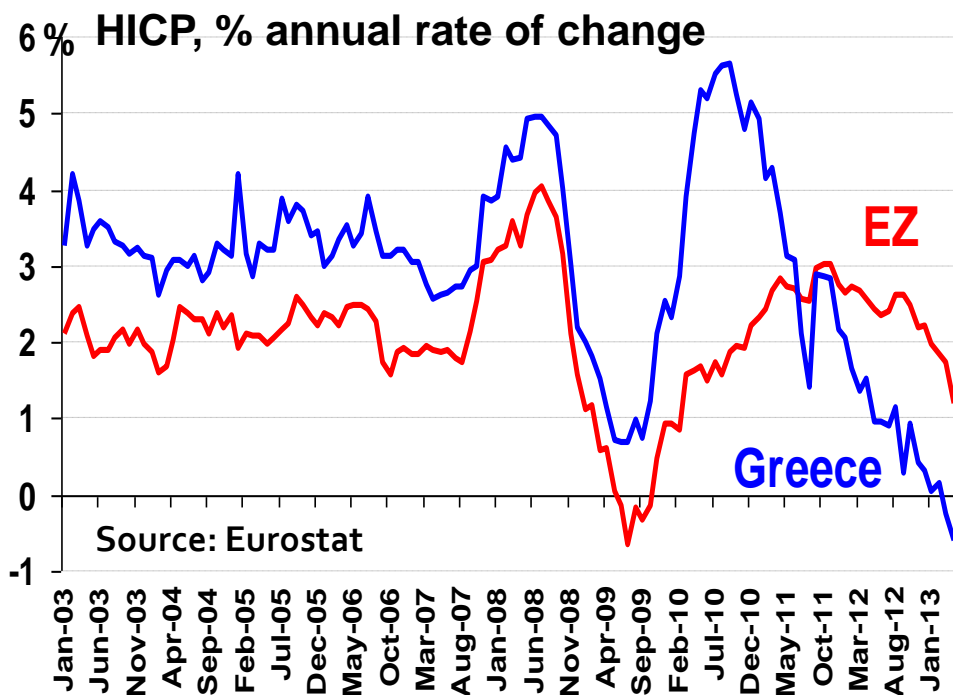
❖ Gains of over 25 points in competitiveness from the peak in 2009

❖ Greece has regained the lost cost competitiveness



Source: ECB

II. COMPETITIVENESS IMPROVEMENT SHOWS UP IN INFLATION AND EXTERNAL DEFICIT



Source: BoG

	2012	€ mn	% GDP
Curr. Account		-6,527.9	-3.4
Goods		-19,619.0	-10.1
Services		14,721.4	7.6
Income		-3,061.7	-1.6
Transfers		1,431.5	0.7

II. COST COMPETITIVENESS DISEQUILIBRIUM ADDRESSED: LABOR REFORMS, PROGRESS IN ULCs

LABOR MARKET REFORMS bring flexibility

- ❖ **Adjustment / Reduction of wage floors:**
 - 22% reduction in the minimum wage & 32% reduction for age ≤ 25
 - Reduction of severance payments & annulment of the marriage allowance
- ❖ **Structural measures to level the playing field in collective bargaining**
 - Shortening length of collective contracts and reduction of their 'after effects' time
 - Removal of 'tenure' in all existing legacy contracts
 - A freeze of automatic raises based on time of employment ('maturity') until unemployment falls below 10%
 - Elimination of unilateral recourse to arbitration
- ❖ **Adjustment downward of non-wage labor costs:**
 - Close down organizations engaged in social expenditures (OEK, OEE)
 - Decrease by 1.1% in employer contributions to social security funds as of Nov 1, 2012
- ❖ **Elimination of other restrictions**
 - Reduction of min/max time between shifts, definition of work-week, etc.

REFORM WORK REMAINING AHEAD

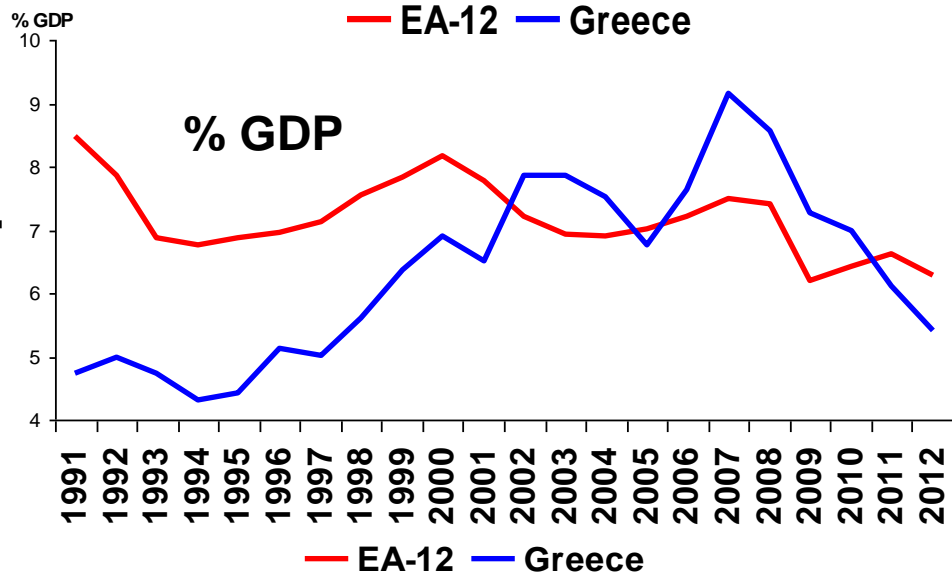
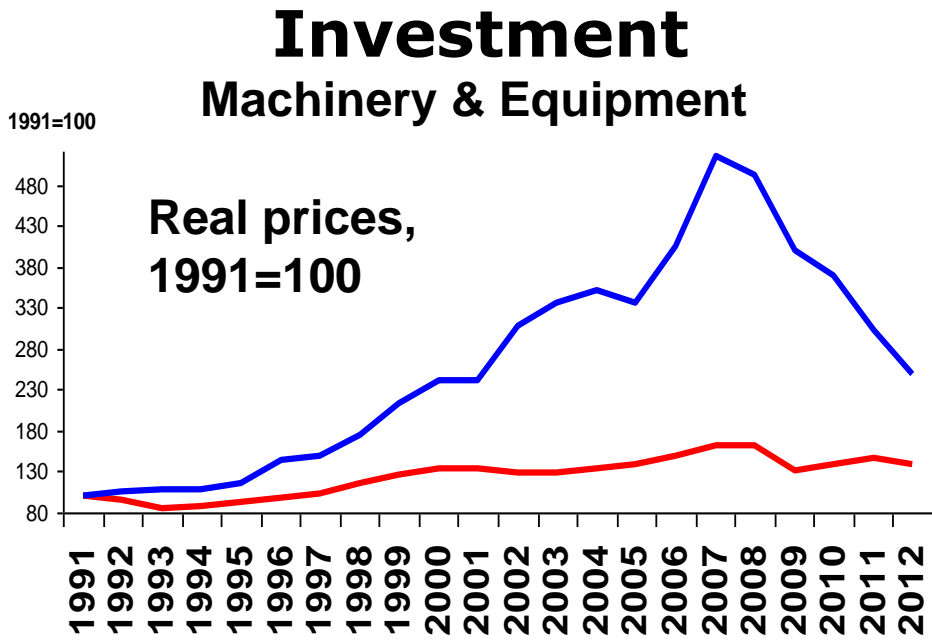
- ❖ **Measures to fight unemployment** (differentiating benefits, etc.)

III. LOW INVESTMENT ACTIVITY & OTHER FACTORS REVEAL NEED FOR BETTER BUSINESS ENVIRONMENT

	<u>Greece</u>	<u>EA-12</u>
1. Investment (% GDP)		
2001-2009	22.8	20.6
2012	13.1	18.4
2. Corruption Perceptions Index 2012 (0-100)	36.0	70.6
3. Rule of Law 2011 (score -2,5 to 2,5)	0.57	1.41
4. Government Effectiveness 2011 (score -2,5 to 2,5)	0.48	1.36

Source: EUROSTAT, Transparency International, World Bank

5. Labor force participation and quality of education are also factors that lag behind



Source: European Commission

III. INSTITUTIONAL & EASE-OF-DOING BUSINESS REFORMS

PUBLIC SECTOR EFFICIENCY

- ❖ Reduce red tape, redesign existing government structures, evaluate employees

BUSINESS ENVIRONMENT

- ❖ Improve competition, Fast track licensing, Exports-imports facilitation

GROWTH ENHANCING STRUCTURAL REFORMS

- ❖ Liberalization of Transports
- ❖ Energy: Competition on electricity generation, Regulated tariffs, Renewables, Regulation of Gas
- ❖ Absorption rates of structural and cohesion funds

FINANCIAL SECTOR REFORMS

REGULATED PROFESSIONS

JUDICIAL REFORM

- ❖ Clearance of backlog of tax & non-tax cases
- ❖ Code of civil procedure in line with international standards (small and dormant cases to go outside the courts, relief from non-adjudicatory work)

EDUCATION REFORM

- ❖ Restructuring & evaluation of universities, evaluation in secondary education

III. REFORM WORK REMAINING AHEAD TO ADDRESS THE INSTITUTIONAL & BUSINESS ENVIRONMENT

❖ Speed-up the judicial reform

- Update existing plan for reduction of backlog of tax cases; past targets already missed
- Deliver the Report and then plan to address the backlog of nontax cases
- Open access to mediation services to non-lawyers

❖ Land registry and spatial planning

- Simplify legislation for town planning processes
- Update legislation on forests, lands and parks

❖ Financial sector reforms

- Recapitalize banks (on-going)
- Update resolution framework for unsustainable household debt

❖ Energy sector liberalization (on-going)

- Restructure PPC (DEH)
- Liberalize the electricity market

CONCLUDING REMARK

- ❖ After almost 6 years of recession and a substantial reduction in living standards, the Greek population has suffered a lot but remains stoic
- ❖ It is time to stop blaming others for the past ills of the country
- ❖ It is time to invest in the **ownership of the reform program**
- ❖ Greece is now moving fast to complete the needed reforms



**Thank you
for your attention**

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APPENDIX: A BIRD'S EYE VIEW ON GREECE

	2012	Greece	EA17	World
Population (mil.)		11.4	332.1	7,052.1
Geographical Area (thousand km²)		132.0	2,624.0	148,940
GDP per capita (€)		17,161	28,463	7,219
Human Development Index (2012 UN ranking among 186 countries)		29		
Life expectancy (years)		80.0	81.0	70.1
Motor vehicles per 1000 inhabitants (2010)		624	593	175
Suicides / 100 thousand inhabitants (2009)		3.2	12.9 (OECD)	
Primary Sector (% GDP)		3.4	1.8	4.3
Secondary Sector (% GDP)		16.4	25.1	29.3
Tertiary Sector (% GDP)		80.2	73.1	66.4
Tourism (Total contribution, % GDP)		16.4	8.3 (EU-27)	9.2
Construction (% GDP)		2.1	5.9	
Public Sector (Prim. Gen. Gov. Exp. % GDP)		49.7	46.8	
Exports (% GDP)		27.0	45.7	
Imports (% GDP)		32.0	43.0	
Private Consumption (% GDP)		73.7	57.5	
Gen. Gov. Debt (% GDP)		156.9	92.7	

APPENDIX: PROJECTIONS

	2012 €bn Nominal	2012 %yoy growth Real	Shares in 2012 GDP	2013 yoy growth Real	2014 %yoy growth Real
Private Consumption	142.756	-9.1%	73.7%	-7.7%	0.5%
Government Consumption	34.398	-4.2%	17.8%	-7.2%	-3.1%
Total Consumption	177.154	-8.1%	91.4%	-7.6%	-0.2%
GFCF	26.339	-17.6%	13.6%	-10.9%	1.5%
Domestic Demand	203.493	-9.4%	105.0%	-8.0%	0.0%
Imports	62.053	-13.8%	32.0%	-9.2%	0.6%
Exports	52.309	-2.4%	27.0%	4.9%	2.1%
GDP	193.748				
Real GDP		-6.4%		-4.2%	0.4%
GDP deflator		-0.9%		-1.2%	-0.5%
Unemployment		24.7%		26.5%	27.0%

Source: Eurobank Research

APPENDIX: OFFICIAL SECTOR FINANCING

Official sector Financing (IMF, EFSF) & Bond redemptions (2012-2014, €bn)

	2012				2013				2014				Total
IMF	1,6	0,0	0,0	3,3	1,8	1,8	1,8	1,8	1,8	1,8	1,8	1,8	19,3
EFSF	40,5	33,5	0,0	49,1	4,2	3,2	0,7	2,4	6,3	4,8	0,0	0,0	144,7
Total	42,1	33,5	0,0	52,4	6,0	5,0	2,5	4,2	8,1	6,6	1,8	1,8	164,0
Maturing debt	4,9	4,0	0,0	0,3	4,1	5,3	3,5	1,3	3,0	10,3	7,4	2,5	46,5

- ❖ Up to May 2013 total financing amounts to €125,2 bn
- ❖ Remaining financing until the end of 2013 amounts to €9,2bn
- ❖ Total funding for 2014 stands at €17,5 bn

Source: 2^o Economic Adjustment Programme for Greece (May 2013)