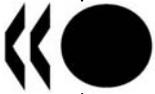


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RAISING GREECE'S POTENTIAL OUTPUT GROWTH

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By Vassiliki Koutsogeorgopoulou and Helmut Ziegelschmidt

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ABSTRACT/RÉSUMÉ

This Working Paper looks at structural policies which would improve Greece's long-term economic performance and help speed economic and social convergence with average European Union member countries. It focuses on a number of key areas which are particularly important for rapid growth as they offer substantial scope for catching up with international best practice. These areas are: getting more people into work through higher flexibility in the labour market and more effective labour market policies; competition policy reform; the liberalisation of product markets, in particular the energy, telecommunication and transport sectors; policies to foster entrepreneurship; and financial market reform, including the implementation of a better corporate governance regime. A number of Annexes provide additional information on the reform of the energy markets (electricity, gas, oil), the telecommunications sector, maritime transport and financial markets.

Keywords: Productivity; reforms; flexibility; labour markets; product market; competition policy; privatisation; energy sector; telecommunications; transport; entrepreneurship; corporate governance; financial markets.

JEL classification: J22, J38, K20, L9, L94, L96, N2

This Working Paper relates to the 2005 OECD Economic Survey of Greece
(www.oecd.org/eco/surveys/Greece)

Résumé:

Ce document de travail examine les politiques structurelles qui amélioreraient les performances à long terme de la Grèce en matière de productivité et contribueraient à accélérer la convergence sur le plan économique et social avec les autres pays membres de l'UE. Ce document de travail se concentre sur un certain nombre de domaines clés, particulièrement importants pour une progression rapide de la productivité car ils offrent des possibilités non négligeables d'harmonisation avec les meilleures pratiques internationales. Ces domaines sont les suivants : réforme de la politique de la concurrence, promotion d'une économie fondée sur le savoir, libéralisation des marchés de produits, en particulier dans les secteurs de l'énergie, des télécommunications et du transport, mesures favorisant l'entrepreneuriat, et mise en œuvre d'un régime de gouvernement d'entreprise de meilleure qualité. Un certain nombre d'annexes prévoient l'information additionnelle sur la réforme des marchés de l'énergie (l'électricité, gas, pétrole), du secteur de télécommunications, du transport maritime, et des marchés financiers.

Mots-clefs: Productivité; réformes; flexibilité; marché du travail; marché de produits; politique de concurrence; privatisation; secteur d'énergie; télécommunications; transport; entrepreneuriat; régime de gouvernement d'entreprise; marché de finances.

Classification JEL: J22, J38, K20, L9, L94, L96, N2

Ce document de travail se rapporte à l'Étude économique de l'OCDE de la Grèce
(www.oecd.org/eco/surveys/Grèce)

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RAISING GREECE'S POTENTIAL OUTPUT GROWTH

by
Vassiliki Koutsogeorgopoulou and Helmut Ziegelschmidt¹

Closing the income gap with the European Union

1. Growth of *per capita* GDP at rates above the EU-average remains an important economic policy objective² of the Greek government over the medium term. Current estimates put Greek potential GDP growth at around 3¾ per cent annually, slowing to around 3% by 2010 as the effects of euro-area membership and receipt of large EU transfers peter out. Although still faster than the EU average, growth at 3% annually would delay catch-up to the EU-15 average level of incomes. Hence reforms are desirable that would prevent a slowing in potential growth and even raise it. A simple arithmetical decomposition exercise shows where economic reforms would be most helpful to maintain high economic growth in the future (Figure 1). The decomposition shows that both lower number of hours worked and the lower output produced per hour account for the gap in Greece's PPP-adjusted per-capita income relative to the United States as the benchmark OECD country.

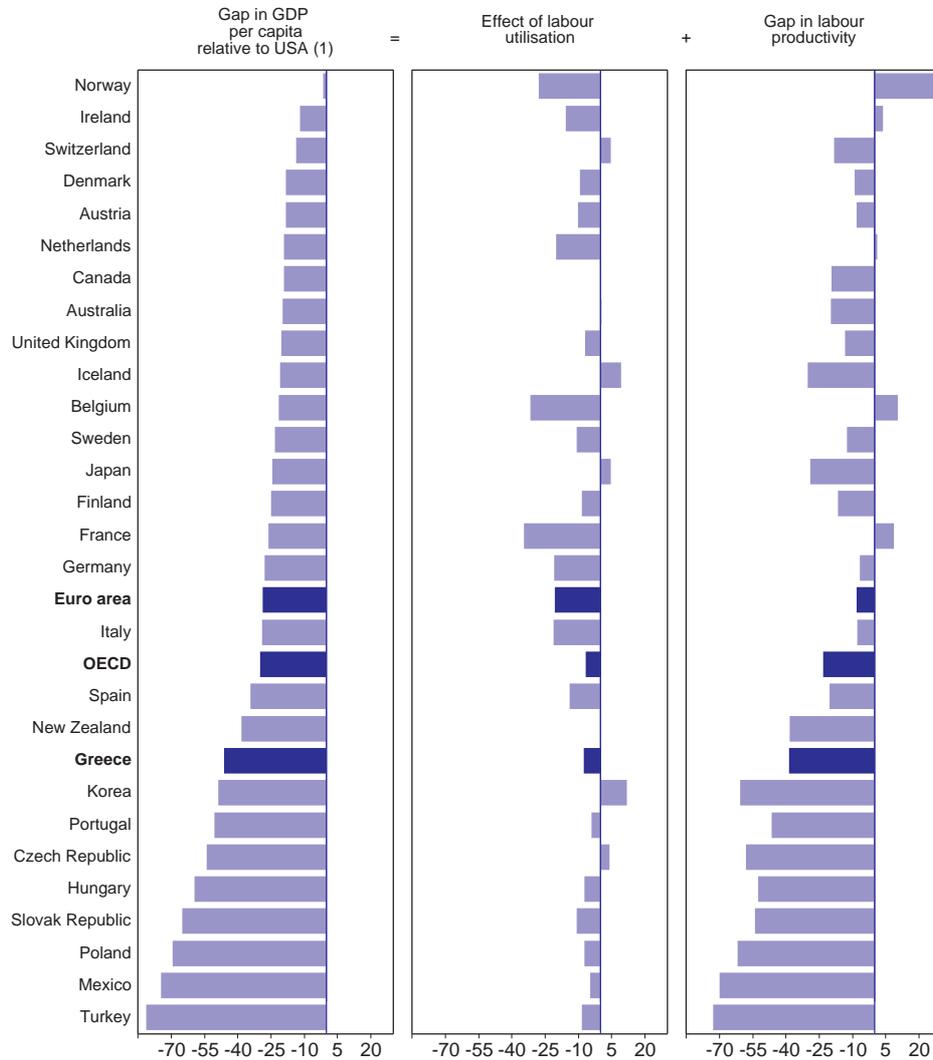
2. The gap in labour utilisation relative to the United States reflects a lower employment rate which is partly offset by longer working hours in Greece. Both lower labour force participation and higher unemployment, notably among women and the young, account for the lower employment rate than in the United States. However, the gap in *total* labour utilisation is lower than for the Euro zone countries, partly because of the high degree of labour market slack in most European countries, but mainly because the long working hours for Greek full-time employees and the low level of part-time work offset the effect of low employment rates of youths, women and older workers. There is thus much scope for higher labour inputs to raise Greek income levels. Moreover, higher labour utilisation not only has an immediate positive effect on incomes but also helps achieving other social objectives, such as lower unemployment, a more equitable income distribution, strengthened social cohesion and more sustainable public finances.

3. The income decomposition also illustrates that the potential for catch-up is particularly high for output produced per hour. Thus, despite the rapid growth of productivity in recent years, there remains substantial scope for raising it further, both *via* investment in physical and human capital and by more efficient use of existing resources.

4. Table 1 illustrates the quantitative importance of different economic determinants of potential output, which can be used to set up plausible scenarios for achieving higher sustainable economic growth. One possible scenario would be to raise the annual growth of potential labour inputs from 0.5% to 0.8%, which would be roughly the average recorded for the 1996-2004 period. This could be achieved for example by raising labour participation of the age group 55 to 64, which is about 10 percentage points below the OECD average. The resulting higher medium-term potential output growth rate of 3.9% would allow convergence with the EU by 2026 instead of 2032 (Figure 2).

Figure 1. Decomposing the income gap

Percentage point differences in GDP per person relative to the United States, PPP-adjusted, 2003



1. The gap in GDP per capita is equal to the sum of the two components shown. The effect of labour utilisation is based on total hours worked *per capita*. Productivity is measured on a per-hour basis.

Source: OECD, Productivity database (February 2005).

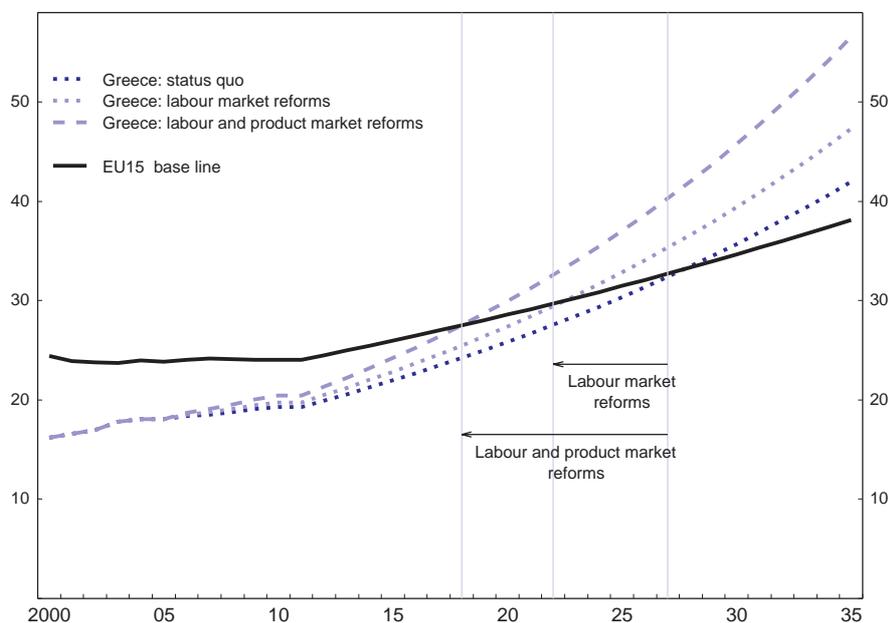
Table 1. Medium-term potential output growth

Annual average, percentage points

	Potential GDP growth			Potential labour productivity growth (output per employee)			Potential Employment growth			Working-age population			Trend participation rate			Change in structural unemployment		
	1992-2004	2005-10	2005-10	1992-2004	2005-10	2005-10	1992-2004	2005-10	2005-10	1992-2004	2005-10	2005-10	1992-2004	2005-10	2005-10	1992-2004	2005-10	2005-10
Australia	3.3	3.2	3.2	1.7	2.1	2.1	1.6	1.1	1.2	1.0	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Austria	2.3	2.1	2.1	1.7	2.0	2.0	0.6	0.2	0.4	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Belgium	2.0	2.1	2.1	1.4	1.6	1.6	0.7	0.4	0.2	0.3	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Canada	3.0	3.1	3.1	1.4	2.1	2.1	1.5	1.0	1.2	1.0	0.2	0.0	0.1	0.1	0.0	0.1	0.0	0.0
Denmark	2.1	1.8	1.8	1.8	1.9	1.9	0.3	-0.1	0.2	0.0	-0.1	-0.0	0.2	0.2	0.0	0.2	0.0	0.0
Finland	2.4	2.1	2.1	2.2	2.3	2.3	0.1	-0.2	0.2	0.1	0.0	-0.4	-0.1	0.1	-0.1	0.1	0.1	0.1
France	2.1	2.0	2.0	1.3	1.8	1.8	0.8	0.2	0.3	0.3	0.4	-0.1	0.1	0.0	0.1	0.0	0.0	0.0
Germany	1.5	1.6	1.6	1.1	1.6	1.6	0.3	0.1	0.0	-0.2	0.5	0.3	-0.1	0.0	-0.1	0.0	0.0	0.0
Greece	2.9	3.6	3.6	2.2	2.9	2.9	0.6	0.7	0.3	-0.1	0.5	0.6	-0.2	0.2	-0.2	0.2	0.2	0.2
Iceland	2.8	2.6	2.6	1.7	2.3	2.3	1.1	1.2	1.1	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Ireland	7.2	4.5	4.5	3.6	3.5	3.5	3.4	1.0	1.8	0.7	0.8	0.2	0.8	0.1	0.8	0.1	0.1	0.1
Italy	1.4	1.3	1.3	1.1	1.2	1.2	0.2	0.0	0.0	-0.3	0.3	0.2	-0.1	0.1	-0.1	0.1	0.1	0.1
Japan	1.4	0.8	0.8	1.2	1.4	1.4	0.2	-0.6	-0.1	-0.7	0.4	0.2	-0.1	0.0	-0.1	0.0	0.0	0.0
Netherlands	2.7	2.0	2.0	0.9	1.3	1.3	1.8	0.7	0.4	0.3	1.0	0.3	0.3	0.0	0.3	0.0	0.0	0.0
New Zealand	3.0	3.3	3.3	1.2	2.0	2.0	1.8	1.2	1.3	1.0	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.1
Norway	2.6	3.0	3.0	1.8	2.2	2.2	0.8	0.8	0.7	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Spain	3.0	2.8	2.8	1.0	1.3	1.3	1.9	1.5	0.7	0.8	1.0	0.6	0.3	0.1	0.3	0.1	0.1	0.1
Sweden	2.1	2.4	2.4	2.3	2.1	2.1	-0.1	0.2	0.4	0.4	-0.4	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0
Switzerland	1.2	1.5	1.5	0.6	1.2	1.2	0.6	0.3	0.5	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	2.6	2.5	2.5	1.8	2.1	2.1	0.7	0.5	0.4	0.4	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.0
United States	3.2	3.3	3.3	1.9	2.3	2.3	1.3	0.9	1.2	1.1	0.0	-0.2	0.1	0.0	0.1	0.0	0.0	0.0
Euro area	..	1.9	1.9	..	1.6	1.6	0.7	0.4	..	0.1	0.6	0.3	..	0.0	..	0.0	0.0	0.0
OECD	..	2.5	2.5	..	2.0	2.0	0.9	0.5	..	0.7	0.2	0.0	..	0.0	..	0.0	0.0	0.0

Source: OECD Economics Department Medium term Reference Scenario as of April 2005.

Figure 2. Convergence scenarios¹
 Real GDP per capita in thousand US\$ (PPP-adjusted)



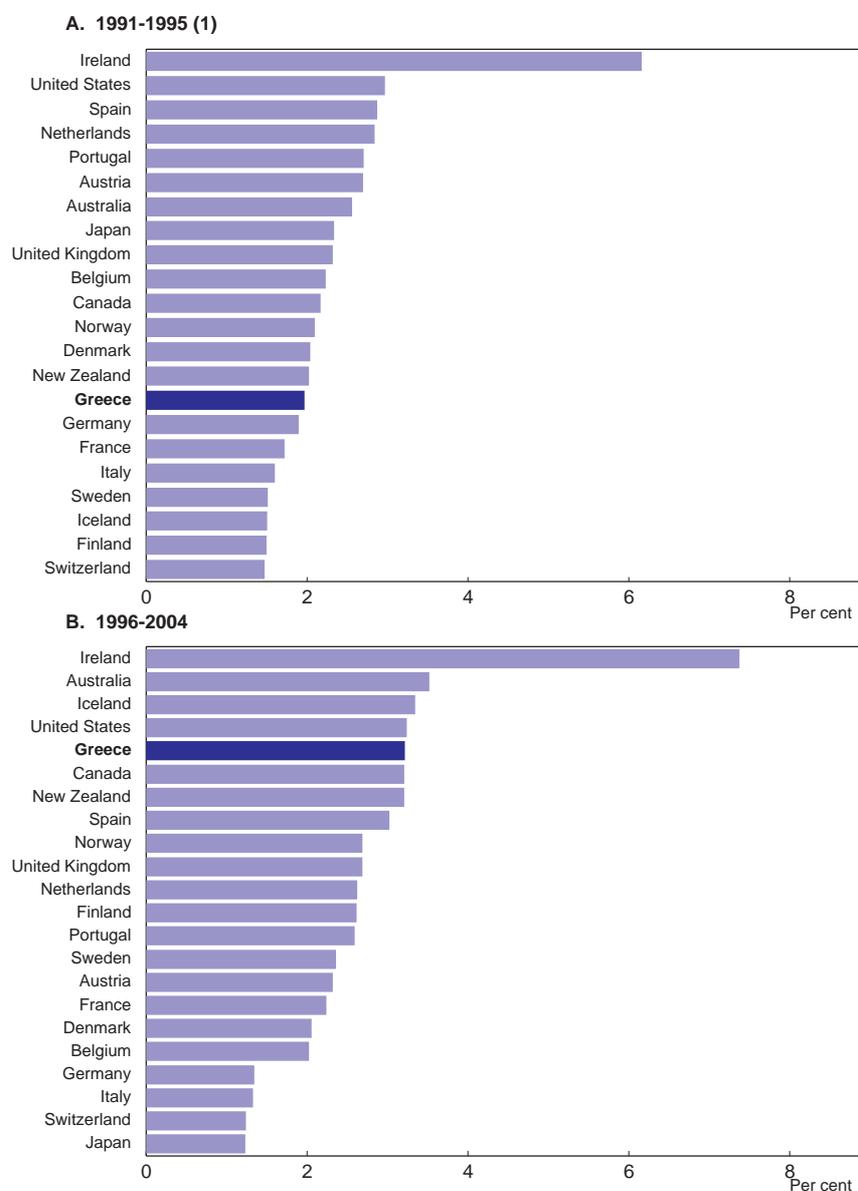
1. The different scenarios shown in this figure are based on the OECD Economics Department Medium Term Reference Scenario as of April 2005. The baseline scenario assumes that the growth in per capita real GDP (PPP-adjusted) will be held constant at its 2010 rate, for the whole period 2010-2050.

Source: OECD, *National Accounts* database; OECD, *Economic Outlook 77* database.

5. In addition, policies which enhance competition in product markets could possibly raise labour productivity growth by an additional 0.6 percentage points for a period of years. This is a rather prudent assumption (made for illustrative purposes) against an OECD estimate of a potential increase in Greece's *level* of multifactor productivity by more than 15% from regulatory reform alone. Together with higher labour inputs, it would bring potential output growth to 4.5% (some 1½ percentage points higher than projected for 2010 under the assumption of unchanged policies). Such a target would not seem out of reach given OECD estimates which suggest that five countries succeeded in raising potential output growth by such magnitude from the 1991-95 to the 1996-2003 period³ (Figure 3). If economic growth of 4½ per cent could be maintained in Greece for a prolonged period (and everything else were in line with the extrapolation of the medium-term reference scenario), then full convergence of the Greek economy with the level of average incomes in the EU would be achieved already by 2020.

Figure 3. Estimates of potential output growth

Annual average percentage changes over period



1. For Germany 1992 to 1995.

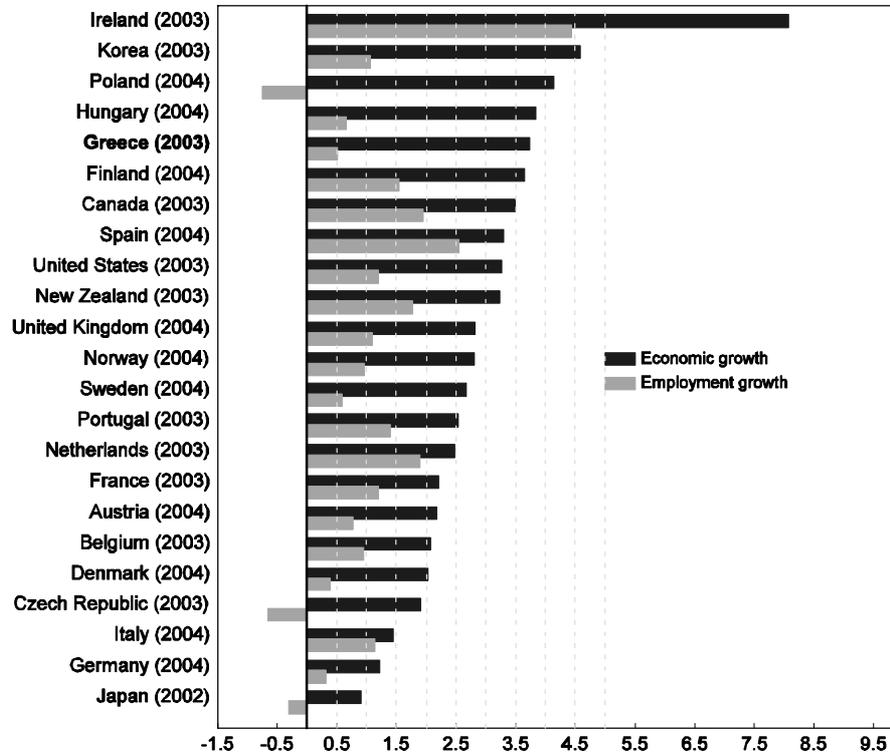
Source: OECD, *Economic Outlook 77* database.

Raising labour force participation and employment rates

6. Labour market outcomes remain relatively poor in international comparison, with the unemployment rate hovering at around 10% in 2004, despite several years of strong GDP growth (Figure 4 and Table 2).

Figure 4. Growth and employment 1996 to 2004¹

Average annual rates



1. Or latest year available. Data based on National Accounts definition. Greek national accounts figures have not yet taken into account the recent revision of LFS data for the 1998-2004 period; if LFS data are used, the average annual rate of Greek employment growth 1996 to 2004 would be 1.2% (instead of 0.5% on the basis of national accounts figures).

Source: OECD, *National Accounts*; OECD, *Main Economic Indicators*.

Table 2. Labour market indicators¹

Percentages

	Greece						Euro zone		EU15	OECD
	1998	1999	2000	2001	2002	2003	2004	2003	2003	2003
Unemployment rates²										
Total	10.8	11.9	11.2	10.4	9.9	9.3	10.2	8.9	8.0	6.9
Men	7.1	7.7	7.4	6.9	6.4	6.0	6.4	7.9	7.4	6.8
Women	16.7	18.2	17.0	15.9	15.2	14.3	15.9	10.1	8.9	7.1
Youth unemployment rate (15-24 years)	29.3	31.4	29.2	28.0	26.1	25.6	26.5	16.8	15.5	13.6
Long-term unemployment ³	56.6	58.5	58.3	54.3	54.9	58.4	56.4	44.5	41.5	30.1
Employment rates⁴										
Total (15-64 years)	56.1	56.0	56.6	56.5	57.7	58.9	59.6	62.5	64.4	64.9
Men (15-64 years)	71.9	71.3	71.7	71.6	72.5	73.5	74.0	71.4	72.7	74.7
Women (15-64 years)	40.6	41.1	41.8	41.7	43.1	44.5	45.5	53.6	56.1	55.3
Youth (15-24 years)	28.5	27.3	27.4	26.3	26.8	26.0	27.4	36.3	36.8	42.9
Self-employment as a share of total employment ⁴	43.6	42.2	41.9	39.9	39.3	39.0	36.6	15.5	15.2	..
Participation rates⁵										
Total (15-64 years)	63.0	63.7	63.9	63.2	64.2	65.1	66.5	68.6	70.1	69.8
Men (15-64 years)	77.5	77.4	77.6	77.0	77.6	78.3	79.1	77.5	78.2	80.2
Women (15-64 years)	48.8	50.4	50.6	49.7	51.0	52.1	54.1	59.6	62.1	59.6
Youth (15-24 years)	40.3	39.7	38.7	36.5	36.3	35.0	37.3	43.7	46.9	49.6

Note: Due to an extended sample, based on the 2001 census results, Greek data for 2004 are not completely comparable with the period 1998-2003.

1. Data refer to the second quarter of each year.

2. As a percentage of group labour force.

3. As a percentage of total unemployment. Refer to people in unemployment since more than one year.

4. Includes employers, self-employed and family workers.

5. As a percentage of age group population. Employment rate is the share of employment in the population; the participation rate is the share of labour force in the population.

Source: Statistics of Greece, Labour Force Survey results (March 2005); Eurostat; OECD Labour Force statistics database.

The Greek labour market continues to be characterised by low employment and labour force participation rates, while unemployment, which is mostly structural, remains high, especially among youth and women. Moreover, long-term unemployment accounts for more than 55% of the total. A further distinguishing characteristic of the Greek labour market is the high proportion of self-employment.

7. Poor labour market outturns in part reflect structural changes in the demand and supply of labour,⁴ but the impact of underlying rigidities in the labour and product markets, as well as skill mismatches related to the educational and training system, are also important. Addressing these requires further reform initiatives, to remove the impediments to entry to employment of youth and women, to better tailor the educational and training system to the requirements of the labour market, and to eliminate distortions arising from the taxation system. Recently introduced employment measures -- including the conversion of unemployment benefits to employment subsidies and the reduction of non-wage costs for under-represented groups, as well as the promotion of part-time work in the public sector -- are welcome steps. Efforts should also be focused on encouraging women to join the labour force, and on older workers to remain in it. The strengthening of social care networks, an increase in the availability of flexible forms of employment, equal opportunities policies (already being actively pursued) and reforms in the pension system to prolong the individual's working life are desirable. Recent steps to increase the number of full-day schools, and the availability of reasonably-priced care infrastructure for children and other dependent members are welcome initiatives for encouraging female participation. A greater emphasis on lifelong learning would encourage continued participation of older workers. The announced reform of the education system is a step in the right direction, and is expected to improve the quality, flexibility and competitiveness of the system.

Towards a more flexible labour market

8. Reforms adopted since the early 1990s have led to greater labour market flexibility, the actual degree of which may, in fact, be higher than suggested by standard indicators as a result of the sizeable inflow of immigrants, the large share of self-employed, and an extensive informal sector. Changes in legislation that came into force in April 2001 went some way towards increasing the flexibility of regulations on overtime, part-time work, and collective redundancies. The impact of these measures on employment generation, however, seems to have been limited so far. There is scope for Greece to improve performance in the following areas:

- Enhancing the flexibility of the wage setting system and reducing non-wage labour costs;
- Easing employment protection legislation further;
- Increasing part-time employment;
- Eliminating impediments to labour mobility; and
- Improving the efficiency of active labour market policies.

9. Measures were introduced in 2004 aiming to improve the employment opportunities of vulnerable groups (unemployed women with children, and unemployed young people and those aged 55 or over), to create part-time employment possibilities in the public sector, and to motivate labour mobility. The government is exploring ways to further improve the functioning of OAED (the Greek Public Employment Service, PES).

The wage formation system and non-labour costs

10. The high concentration of unemployment among people seeking work for the first time (around 41% of total unemployment in 2003, compared with an EU15 average of 19.1%) is symptomatic of a malfunctioning in the wage setting system. Wage agreements should allow more possibilities for opting out of collective agreements, particularly for small firms, as introduced by the 1998 labour market reforms (largely unused in practice⁵). Promoting greater wage differentiation at the local or even enterprise level should also be stepped up. As a positive step, the two-year National General Collective Agreement, concluded in May 2004, does not contain any automatic inflation catch-up clauses. Wage flexibility is limited in Greece by a relatively high ratio (around 60%) of entry minimum wages to average blue-collar earnings in manufacturing. The resulting negative employment effect is mitigated somewhat by employment subsidy programmes, as well as by targeted measures to reduce the cost to the employer of low paid workers (see below). Though minimum wages are aimed at the fulfilment of important social objectives, greater flexibility in their setting by social partners could bring about lower unemployment disparities without significantly increasing hardship⁶ because the extended family network in Greece performs a cushioning role.

11. Social security contributions remain high, accounting in 2004 for more than 34% of total gross labour costs, compared with an EU average of around 31%.⁷ 64% of the wedge corresponds to employer contributions. A new package of labour market measures, introduced in early 2004 (Law 3227/04), reduces non-wage costs for jobless women with children, unemployed youths and people over 55 years (See Box 1). The new measures attempt to improve the employment opportunities for the registered unemployed by subsidising the firms that hire them with an amount equivalent to unemployment benefit.⁸ Closely targeted subsidy schemes may effectively help the employment opportunities of disadvantaged groups, though empirical evidence suggests that targeted subsidies do not necessarily generate many new jobs.⁹ To ensure labour market integration and career progression, however, subsidy payments should be conditional on a training requirement, enabling the persons hired to enhance their marketable skills and develop ties with the recruiting firm. The systematic monitoring of employer's behaviour in order to prevent discrimination against non-subsidised groups of workers, is an important factor for the effectiveness of these schemes.

Employment protection legislation

12. Another source of labour-market rigidity relates to the strictness of employment protection legislation (EPL) governing firing procedures. Some easing in the legislation occurred in the context of the 2000 labour market reforms, with the abolition of the "2% rule" on collective dismissals for firms employing between 50 and 199 employees, although provisions were tightened for smaller firms, to eliminate disincentives to increase the size of enterprises.¹⁰ Efforts to relax EPL rules further, should continue. Employment flexibility would benefit greatly if the still high severance payments for white collar workers were further reduced and brought closer to those for blue collar workers.¹¹ Efforts should further focus on reducing uncertainty in hiring and firing decisions.¹² Restrictive lay-off procedures and high severance costs reduce the flow into unemployment, but they hamper additional hirings during an upswing, encouraging firms to resort to overtime work. Moreover, strict EPL rules tend to shift employment into the informal sector, exacerbating labour market segmentation. Policies that favour insiders may further discourage participation rates of youths and less experienced workers.

Box 1. New measures to promote employment opportunities

The main provisions of Law 3227/04 "Measures for the remedy of unemployment and other provisions" are:

- Employer's social security contributions for hiring unemployed women with at least two children will be subsidised -- on condition that the benefiting firm had not proceeded to dismissals over the previous six months. The firm must also pledge not to fire other staff without serious grounds for as long as the measure is in effect. The duration of the subsidy is one year for each child.
- Social security contributions payable by employers who hire employees of either gender on a temporary contract to replace employees on maternity leave will also be subsidised¹ (on the same conditions as the previous measure).
- Women working as farmers will be relieved from the payment of social security contributions for one year after the birth of their second child.
- Employers who hire unemployed youths up to 25 years old, or unemployed people aged 55 or over who have at least 6 000 daily insurance stamps, are granted a reduction of 50% of the employer's insurance contribution (the amount of the reduction is paid to Social Insurance Institute (IKA) by the state).
- Firms that hire subsidised unemployed persons are financed with an amount equivalent to the unemployment benefit - during the period of eligibility in order to reduce wages costs (on the condition that the benefiting firm had not proceeded to dismissals over the last six months). The firm must also pledge not to fire other staff without serious grounds for as long as the measure remains in force.¹

1. The period that the wage cost is reduced is equal to the time during which the person receives the unemployment benefits, plus two months (*i.e.* a total of 12 months).

Flexibility of working arrangements

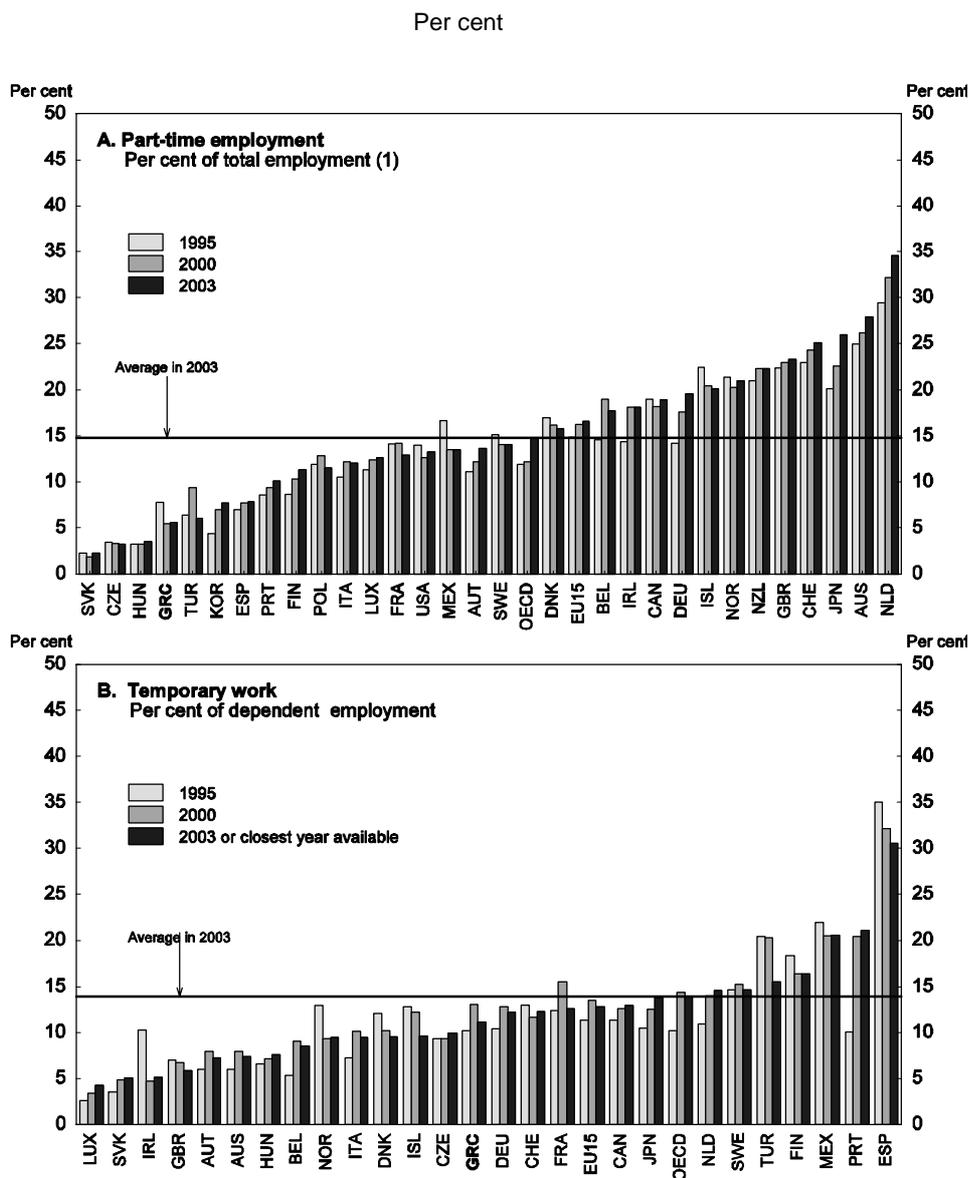
13. Working time flexibility mainly occurs through overtime work and the use of temporary contracts. Part-time work remains at low levels, with no expectation of significant expansion, even though part-time workers in Greece have one of the highest probabilities in the EU area of transition to full-time jobs.¹³ Perhaps as a result, female participation remains among the lowest in the EU15 area (Table 2). Part-time work may also play an important role in delaying early retirement.

14. The 2000 labour market reforms provided for financial incentives¹⁴ for part-time work. Following implementation in 2001, part-time employment increased somewhat in 2003 (to 5.6% of total employment), reversing previous declines (Figure 5). This may also reflect the increased number of nurseries and other child-care facilities in recent years, which encourage the participation of women. But there is still far to go, and eliminating the gap would require tackling both supply and demand factors.¹⁵ Incentives for part-time work, which would enhance female participation, for example training and further availability of childcare facilities,¹⁶ are important. As a positive step, legislation was passed recently in Greece which extends part-time employment opportunities in the public sector. Law 3250/04 permits the state, the local administrations and institutions of public law to hire certain categories of workers -- such as unemployed women, persons with more than three children, long-term unemployed, and persons close to retirement -- with part-time, fixed-term contracts. The jobs offered, however, are in general limited to the fields of "social work", unless pressing needs require these to be extended to other fields.¹⁷ Efforts should focus on broadening the coverage of part-time work in the public sector.

15. In contrast to the limited use of part-time work, the share of temporary contracts (*e.g.* fixed-term contracts and seasonal employment) is close to OECD average (Figure 5). In part, the widespread use of temporary contracts may reflect the high dismissal costs for regular contracts, discussed above. While temporary contracts serve for many workers as a bridge to a more stable form of employment, there is concern about the large numbers of temporary workers who remain in temporary jobs for long periods. Labour market transition data for the period 1995-2000 suggest that, after five years, around 25% of the workers in Greece continued to hold a temporary job, while 9% had moved into unemployment (European Commission, 2003). The mobility of temporary workers into permanent jobs is particularly low for less educated workers and those employed by small firms, probably because of more restricted career advancement than in larger firms (OECD, 2002c). The 2001 legislative framework on employment services (Law 2956/2001), which included provisions on the operation of temporary employment agencies (EPAs), has officially introduced the practice of temporary employment in Greece.¹⁸ The new regulations that came into force in early 2002 permit EPAs to contract temporary employees out to companies for a maximum period of 18 months (unless the contract is converted into an open-ended one). In addition, the 2001 law lays down specific rules on the employment rights of temporary agency workers, ameliorating the working terms and conditions for such employees. The new provisions, which improve the content of temporary employment, are expected to increase mobility in the labour market with a positive impact on overall labour force and employment. The operation of temporary agencies is currently in its infancy in Greece.

16. As concerns overtime, the government attempted to reduce its extensive use and to foster employment through the reduction of legal overtime work and an increase in the overtime premium, in the context of the 2000 labour market reforms.¹⁹ The reform package also provided for the annualisation of working time, if employers and employees concur, while reducing the agreed workweek from 40 to 38 hours. Survey-based evidence, however, suggests that the reforms have made only a limited contribution to increasing employment,²⁰ in part because of the increase in the production costs they are said to involve by the employers. Moreover, except in a very few cases (four company agreements, plus one renewal), the flexible working time scheme has not been implemented by firms. The government intends to reform this restrictive overtime legislation and to strengthen the flexible working hours scheme.

Figure 5. Types of employment: an international comparison



1. Part-time employment refers to persons who usually work less than 30 hours per week in their main job. Data are expressed as a proportion of total employment, apart from the case of the United States where the data refer to wage and salary workers.

Source: OECD, Labour Market Database.

Labour mobility

17. Labour mobility is low, as indicated by the large discrepancies in unemployment rates across regions and the low job turnover rate of employees compared with the EU average.²¹ The limited geographical mobility mainly reflects: *i*) the structure of housing tenure, and in particular the high degree of owner-occupation;²² *ii*) transportation costs which discourage commuting; and *iii*) cultural factors, with the extended family network that both supports the unemployed²³ and weakens the incentives for regional mobility. Occupational mobility is greatly hindered by the fragmentation of the social security system and difficulties in transferring pension rights²⁴ (although measures have been taken in the direction of successive insurance). The 2002 reform of the pension system addresses some of the impediments by

providing for the unification of major social security funds. Regional mobility is expected to be encouraged by the increase in 2004 of the rent subsidy for unemployed persons finding work away from their home towns, as well as the subsidisation of projects by the Public Employment Service (OAED) for unemployed people in large urban centres who are willing to “return to the rural areas/periphery” in order to start a business.²⁵ Also, the 2004 tax law includes a provision (effective as of 2005) that taxable income is reduced by the amount paid for rent in the event that a person up to 40 years of age moves outside Athens or Salonica, or an employee is relocated outside his/her home town.

Active labour market policies

18. Active labour market policies (ALMPs) have been significantly developed in recent years, the objective being to get people into work by providing job-search assistance, training programmes and direct employment subsidies. The high levels of structural unemployment indicate that there is still much scope for improving the efficiency of OAED in terms of job-matching, and pushing the unemployment rate further down. A restructuring of OAED is currently under way (see Box 2). The 2004 National Action Plan for Employment (NAPE) found that the restructuring was a long and difficult task, with the Centres for the Promotion of Employment not having met so far their objectives in terms of providing an individualised approach for all unemployed,²⁶ helping unemployed to re-integrate in the labour market, and contributing effectively to the identification of labour market needs (Ministry of Employment and Social Protection, 2004). The job-matching efficiency of OAED would be further enhanced by boosting competition between public and private service providers in the employment placement market. There are currently 50 private employment agencies (“Private Employment Counselling Offices”) in operation in Greece, but their share in total job placement is negligible because these agencies deal only with a very restricted certain category of jobs. As a positive step, the Centres for Vocational Training (KEK) were authorised in 2004 (by Law 3327) to also function as private employment counselling offices.

Box 2. Strategic steps in restructuring OAED

These include:

- i) The upgrading of the PES-Employment Promotion Centres (EPCs)^{Error! Reference source not found.} network in both quantitative and qualitative terms, to support of the individualised approach;
 - ii) The development of an integrated information system enabling the monitoring of unemployed persons through individual approach processes, and facilitating planning and decision making regarding the active employment policies;
 - iii) The improvement of OAED administrative procedures through the preparation of the new organisation plan and internal regulation (including the training of the OAED staff);
 - iv) The renovation of OAED substructures, including both headquarters and local services -- in progress; and
 - v) The application of various information tools, in view of the implementation in 2005 of the integrated information system.
1. Law 3144/2003 provided for the establishment of a new Special Service at OAED, responsible for operating the EPCs.

19. Notwithstanding the progress achieved so far towards a more comprehensive employment strategy, the limited response to OAED's programmes for subsidised employment underlines the need to review the terms of participation in such programmes, and assess the goals they attempt to achieve. OAED programmes are often considered as bureaucratic by both the unemployed and businesses, discouraging them from participating. Empirical evidence suggests that OAED employment subsidy programmes are better fitted for the needs of the larger companies (Employment Observatory Research-Informatics S.A, 2004).

20. The 2004 NAPE assesses the measures taken to identify successful initiatives and pinpoint remaining weaknesses. To improve the functioning of Centres for the Promotion of Employment, labour advisers are now responsible, in a centrally controlled way, for the full implementation of the individualised approach, the re-integration of unemployed to the labour market, and the dissemination of programme information to the workplaces. Efforts should continue towards a better tailoring of OAED's programmes to the needs of the targeted groups and the close monitoring of their effectiveness, so as to enhance its job-matching efficiency.

Competition policy reform

The potential benefits of more competition in product markets are high

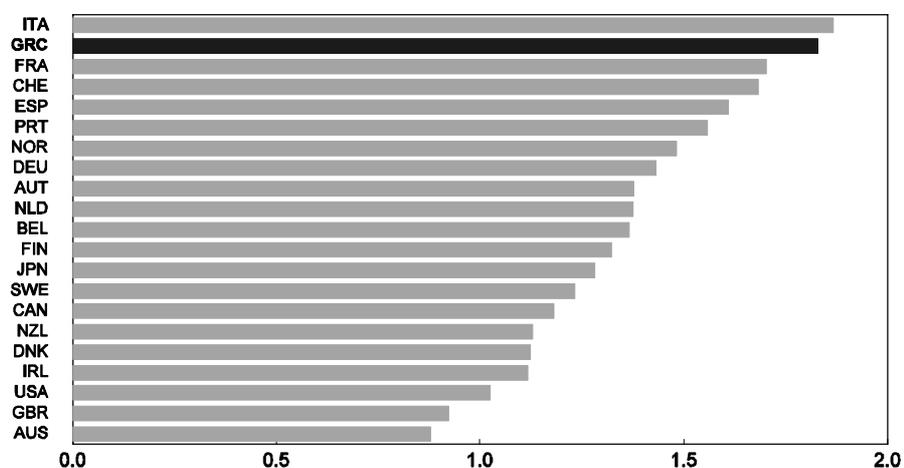
21. The OECD Growth Study²⁷ and other empirical work have shown that stronger competition in product markets spurs economic growth. The study by Scarpetta and Tressel (2002) suggests that an alignment of the regulatory stance in Greece to that of the least regulated OECD countries could reduce the size of the technology gap, *i.e.* the distance to best practice abroad (the "technological frontier"), by as much as a half. This in turn could increase Greece's long-run *level* of MFP relative to the frontier by more than 15%, given the starting point of its strict regulations and low competitive pressures in product markets²⁸ and its relatively low MFP levels *vis-à-vis* the leaders (Figure 6).

22. A substantial boost to the level of multi-factor productivity could come from higher foreign direct investment (FDI) inflows. At present, Greece's inward FDI position as a share of GDP is lower than could be expected (Figure 7, Panel A), given the country's integration in the European Union and an overall degree of FDI restrictions now well below the OECD average.²⁹ Simulation exercises by the OECD Secretariat indicate that an alignment of FDI restrictions to those of the least restrictive OECD country (*i.e.* the United Kingdom) would improve its inward FDI position by some 15%.³⁰ The same estimation techniques suggest that an easing of product market regulations in Greece could result in a rise of Greece's inward FDI-to-GDP position by about 80%³¹ (Figure 7, Panel B).

23. Research by Nicoletti *et al.* (2001) found a significant effect of regulatory reforms on the employment rate in the business sector (excluding agriculture) even after controlling for the impact of various labour market indicators and the public-sector employment rate (Box 3).³² The study's results are illustrated in Figure 8, which reveals that there is ample scope for gains in employment *via* product market liberalisation among OECD countries. Indeed, the quantitative estimates suggest that if Greece, as one of the countries with particularly heavy regulation, moved towards the practices in the least restrictive countries, it could see an average increase in its employment rate of 1½ to 2 percentage points.

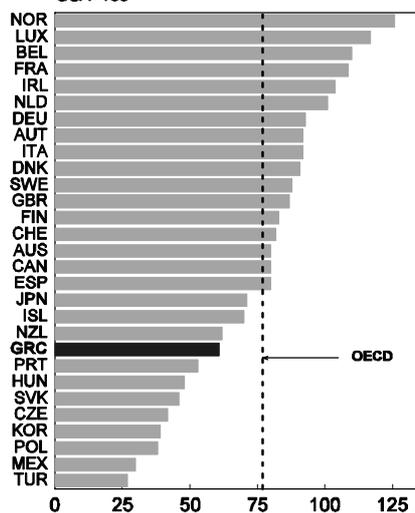
Figure 6. Product market regulation and productivity levels in selected OECD countries

A. 2003 product market regulation indicators (1)

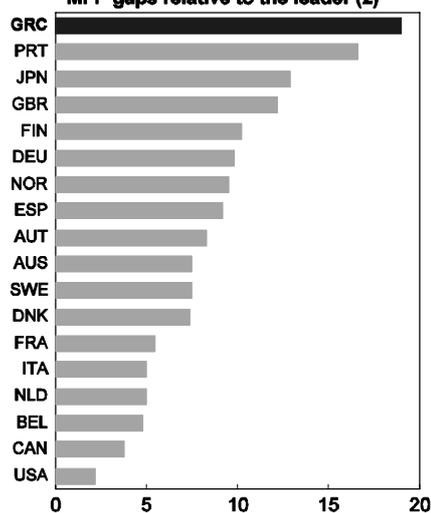


B. GDP per hour worked in 2003

USA=100



C. Effect of deregulation on the MFP gaps relative to the leader (2)

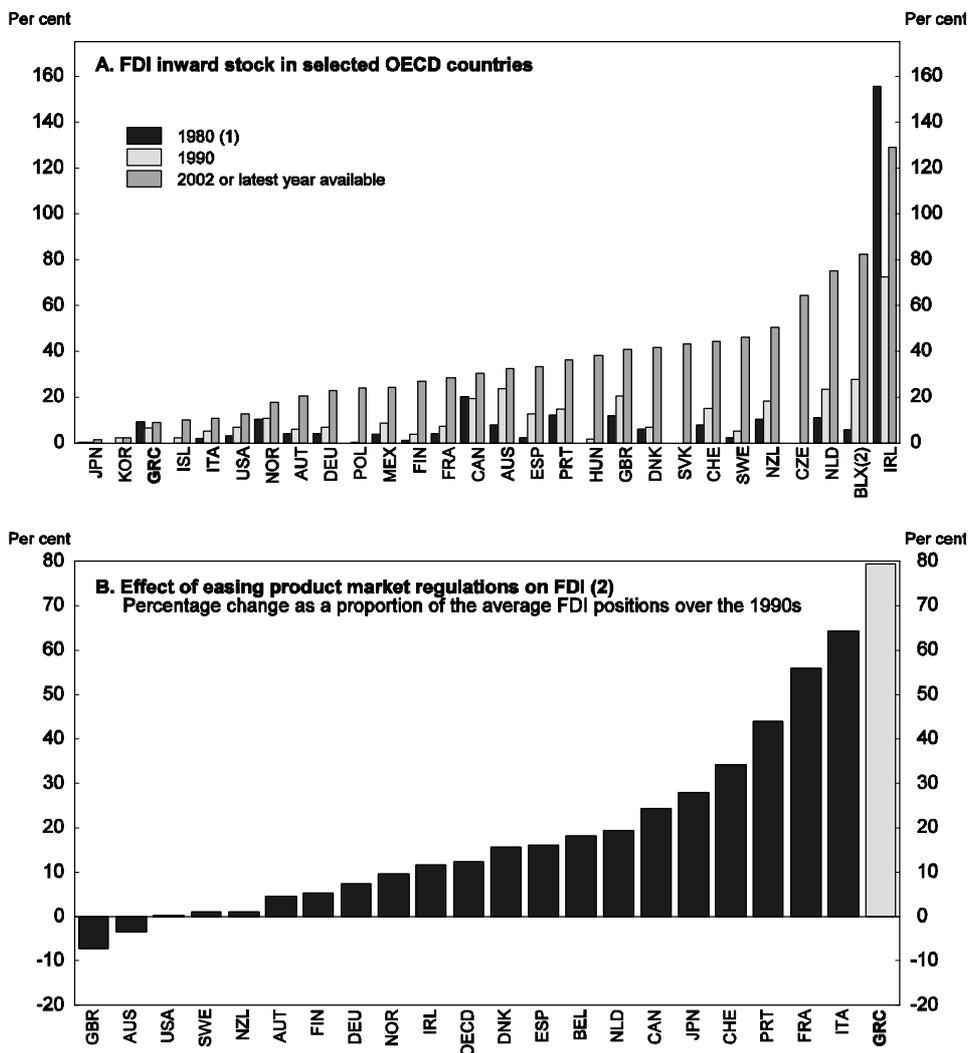


1. Overall indicator of strictness of legislation. Scores can range from 0 to 6, with higher values representing stricter regulation.

2. Panel C shows the estimated effect of a decrease in product market regulation (PMR) by one standard deviation on the level of the long-term multifactor productivity (MFP) gap between a country and best practice abroad (the "leader"). The MFP gap is computed industry by industry and aggregated by taking an average weighted by the initial sectoral value-added.

Source: Nicoletti, G., S. Scarpetta and O. Boylaud (1999); Scarpetta and Tresselt (2002); OECD, Productivity database (February 2005); OECD, Regulation database.

Figure 7. Inward foreign direct investment and product market liberalisation



1. 1980 data are not available for Czech Republic, Hungary, Iceland, Korea, Poland and Slovak Republic.
2. Results of a simulation showing the effects of a decrease in product market regulation in all countries to the level of the least restrictive country (*i.e.* the United Kingdom) on the change in stocks relative to the country initial in stock. Details on simulation methodologies can be found in OECD *Economics Department Working Paper No. 359*.

Source: UNCTAD; Nicoletti, G., S. Golub, D. Hajkova, D. Mirza and K-Y. Yoo (2003), "Policies and International Integration: Influences on Trade and Foreign Direct Investment", OECD *Economics Department Working Paper No 359*.

Box 3. The effects of product market reforms on employment and unemployment

At the macroeconomic level, an increase in product market competition that shows up as lower profit mark-ups over factor cost will unambiguously raise aggregate labour income. The division of the added labour income between higher real wages and employment gains (and hence lower unemployment) will depend on the flexibility embedded in labour market institutions. Given the substantial degree of rigidity in the Greek labour market, the gains from stronger competition in product markets may only partly show up in higher employment.

However, stronger product market competition can also improve the functioning of the labour market in other ways. Insofar as wage premia are reduced in some sectors, frictional unemployment is likely to decline as incentives would be weaker to prolong spells of joblessness in anticipation of being hired into high-premia sectors. Also, the competition-induced increase in aggregate real wages may encourage labour force participation.

The role of the Hellenic Competition Committee needs to be strengthened

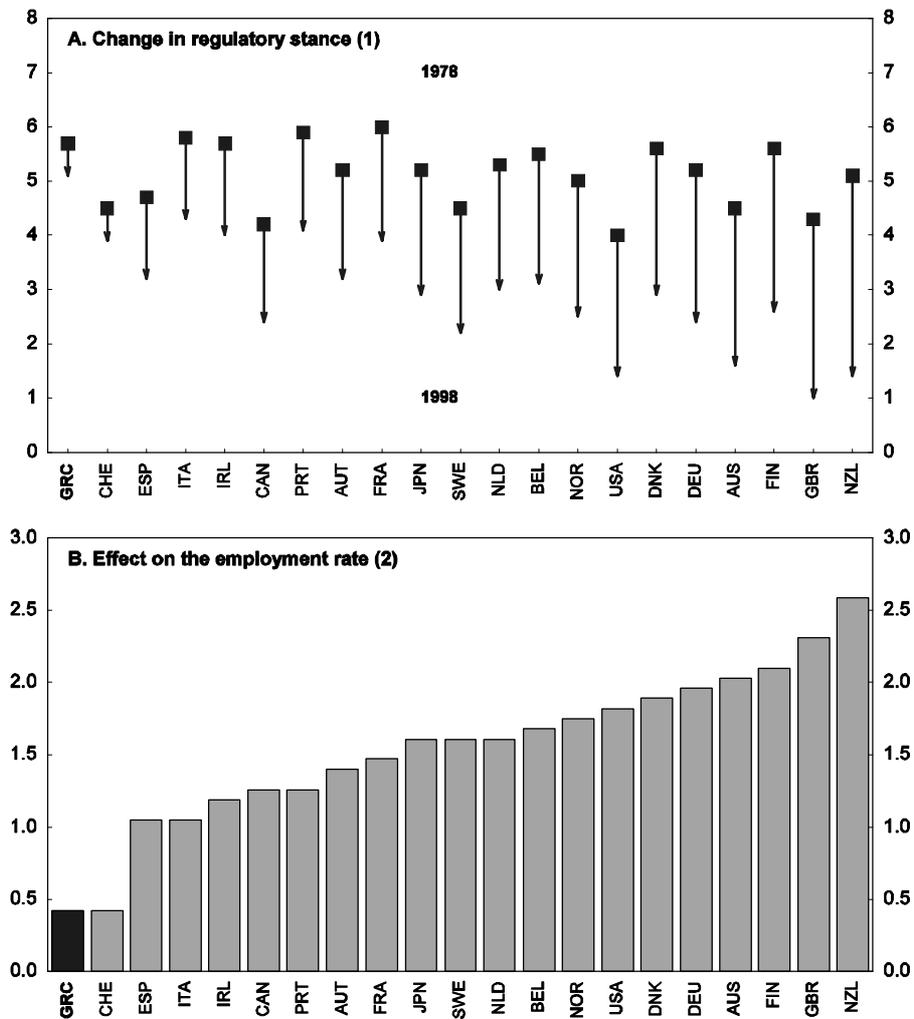
24. The authorities were slow to recognise that competition can help achieve higher productivity growth and a better allocation of labour. The first general competition law (Law 703) was adopted only in 1977, as part of the programme of preparing for membership in the European Community. In practice, competition policy has had little impact on policy-making, notwithstanding the various amendments to the law during the 1990s. In large part this was due to the law's time and resource consuming focus on the review of even minor merger applications,³³ although anti-competitive mergers were not the most pressing competition policy problems, especially in view of Greece's integration in the EU. In the late 1990s, it was acknowledged that the law's emphasis on merger control was misplaced and that instead there was a case to promote corporate consolidation to improve efficiency and international competitiveness. An amendment of anti-trust legislation came into force in August 2000 (Law 2837) which reduced the merger review burden and allowed the Competition Committee³⁴ to shift its attention to horizontal agreements, the abuse of dominant positions and competition issues that are arising in previously monopolised sectors, and to undertake policy advocacy on its own initiative. The reform was intended to strengthen the Committee's financial independence and in principle authorised a substantial increase in its staff.³⁵

25. The Hellenic Competition Committee has shifted its attention to combating anti-competitive behaviour of firms and major merger cases, and over the past three years or so, it has carried out five in-depth inquiries³⁶ and issued about 100 formal decisions, about one-fifth of them related to anti-competitive practices. Nevertheless there has been concern that, because of insufficient enforcement, the 2000 competition law would do little to enhance market discipline, as there have been reports of common and overt agreements among firms about their prices, operating hours, and services.

26. With the view of applying the authorised increase in the Committee's staff up to 80 by the 2000 law,³⁷ the Committee's personnel has increased to 59 employees by early 2005. However, this still leaves Greece's actual enforcement record among the lowest of OECD countries when measured by the human resources committed to competition agencies and adjusted for the size of the economy³⁸ (Figure 9). More political support for the Competition Committee is needed to allow it a more proactive approach in establishing a "competition culture". In March 2005 the government, acknowledging the need for better supervision of competitive conditions, made public a new draft law that amends the 1977 law on competition. The draft law assigns more responsibilities and monitoring powers to the Committee; its Chairman will be selected by the Cabinet, his/her appointment to take effect after a parliamentary hearing; it also provides for speeding up merger control by the Committee, as well as for the systematic recording of the structure of all markets, so as to enhance prudential supervision and permit timely interventions in order to prevent the abuse of dominant positions and the distortion of competition; the number of

Committee members is increased to eleven (from nine) and the number of staff to 150 (from 80). Also see Bank of Greece (2005b).

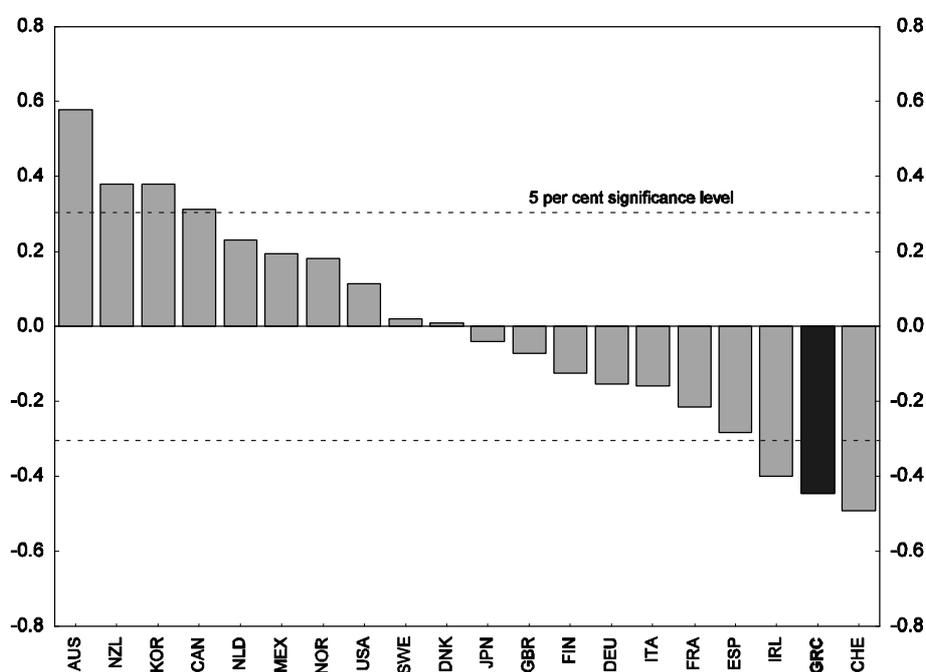
Figure 8. Product market liberalisation and labour market performance
1978-1998



1. Reports changes in the regulatory stance in seven non-manufacturing industries (gas, electricity, post, telecommunications, passenger air transport, railways and road freight) between 1978 and 1998. The regulatory stance is measured by a synthetic indicator ranging between 0 (least restrictive) and 6 (most restrictive).

2. Estimated contribution to the change in the non-agricultural business sector employment rate.

Source: Nicoletti and Scarpetta (2001).

Figure 9. Competition policy enforcement effort¹

1. Country residuals after control for effects of country size. The effect of the size of the economy on staff/GDP ratios has been estimated by the following equation (t-statistics in parentheses):

$$\log(\text{staff}/\text{GDP}) = 0.5145 - 0.3845 \cdot \log(\text{GDP})$$

(1.5) (-3.1)

S.E.: 0.30; R²: 0.35

Source: OECD.

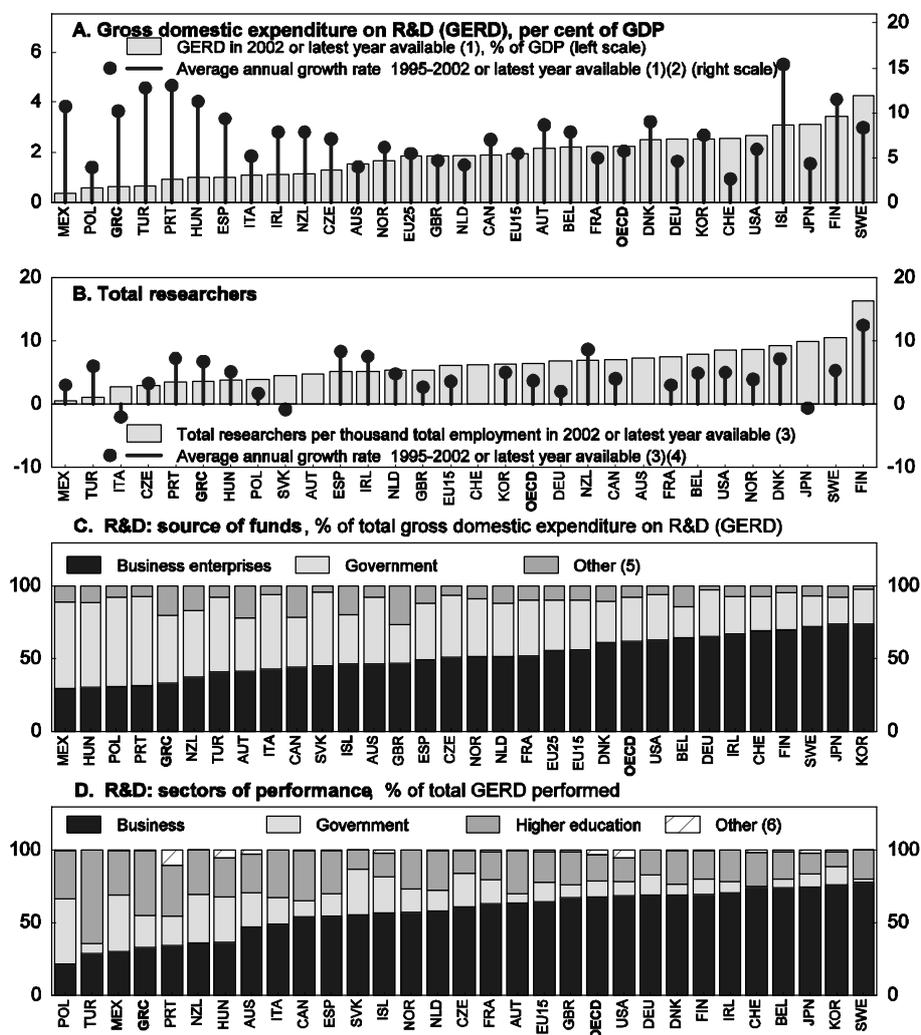
Fostering a knowledge-based economy

27. The research system compares poorly relative to other OECD countries in terms of human and financial resources. Despite growing at a faster-than-average pace, expenditure on R&D is among the lowest in the OECD area, and Greece is still close to the bottom rankings in terms of researchers (Figure 10). Data on the actual implementation of innovation, derived from the Third European Community Innovation Survey (CIS3), also point to a relatively poor innovative performance (Figure 10). Enhancing multi-factor productivity is closely related to improvements in innovative capacity, which plays a crucial role in the process of economic growth and rising living standards. Despite the existence of fiscal and financial incentives to innovative firms,³⁹ most of the R&D activity is funded through the government and the EU, and performed by the higher-education sector, whose links with the economy remain weak (Figure 11). Reaching the quantitative national targets of an R&D/GDP ratio of around 1.5% by the end of 2010, and a level of business funding equivalent to at least 40% of total R&D, would require a re-assessment and streamlining of existing programmes, in order to enhance their flexibility and tailor them better to the needs of the businesses. The effectiveness of mechanisms financing business R&D needs also to be closely scrutinised, with a view to increasing their flexibility and introducing performance-based funding criteria. Policy actions should also focus on the establishment of an environment favourable to business innovation through, for example, the promotion of collaboration between innovative actors in the public and private sectors, and the building up of comprehensive innovation networks.⁴⁰ Initiatives under the 2000-06 *Operational Programme on Competitiveness* (financed through CSFIII)⁴¹ would be further

strengthened by greater accountability and efficiency of public research. The envisaged governance reform of the public research centres, following evaluation and assessment exercises, as well as of the total research and innovation administration/funding structure, if implemented, is a welcome step in this regard. Moreover, Greece is in the final phase of communication and dissemination of results and recommendations of its large-scale National Technology Foresight Programme (with a time horizon reaching year 2021) to government agencies, the public sector and the general public. The main focus of these recommendations is on how to prepare for a knowledge-based society. Other developments in the area concern the introduction of legal and institutional framework conditions with emphasis on the linkage between research and production⁴² and the availability of new economy venture capital. In addition, Law 2999/2002 provided favourable tax incentives for R&D expenditures (50% tax credit which was retained after the last tax reform). Based on the results of an initial survey, this fiscal measure has been utilised by a substantial number of enterprises, mainly in the services sector, during the period 2002-2004. Additional incentives for R&D expenditures are provided by the investment incentives law of 2004 (Law 3299). The fiscal costs of such support schemes should be continuously monitored against their potential benefits, in terms of innovation diffusion and the generation of spillovers into productive sectors.

Figure 10. R&D resources in selected OECD countries

Per cent

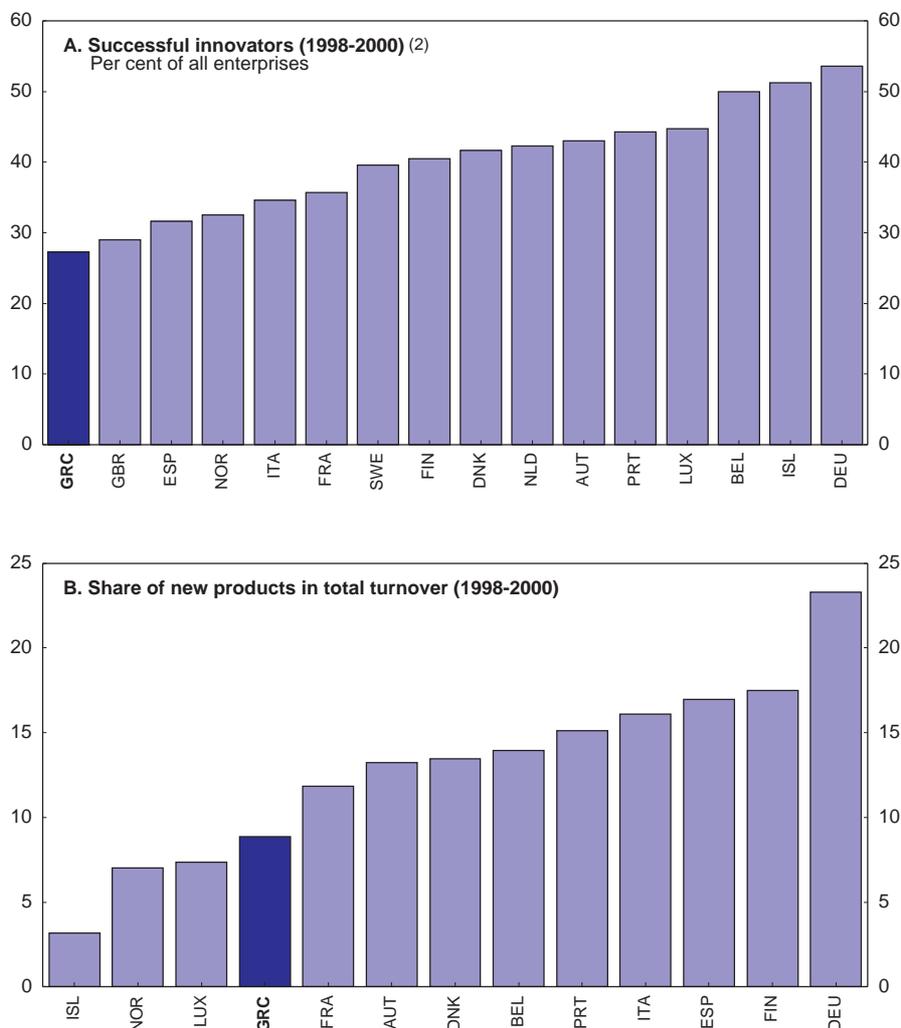


1. 2001 for Greece, Ireland, Italy, Mexico, the Netherlands, New Zealand and Sweden. 2000 for Australia and Switzerland. Luxembourg and Slovak Republic not included. 2002 estimates for OECD and EU15.
2. Evolution of GERD measured in current USD using PPPs.
3. 2001 for Greece. University graduates for Denmark, Finland and Portugal. Number of researchers expressed in full-time equivalent.
4. Evolution of total researchers.
5. Higher education, non-profit institutions and funds from abroad.
6. Non-profit institutions.

Source: OECD, Main Science and Technology Indicators database.

Figure 11. Innovation indicators in selected OECD countries¹

Per cent



1. Care has to be taken when interpreting cross-country comparisons made with the aggregate data in CIS, as there are differences in the sample size used in the respective national components of the Survey.

2. An innovation is successful, if it has been introduced to the market (product innovation), or if it has been implemented (process innovation).

Source: Eurostat, NewCronos, Community Innovation Survey.

28. Although a latecomer in the adoption of Information and Communication Technology (ICT), the increase in the ICT investment over the period 1990-2001 provides grounds for optimism (Figure 12). The rapid adoption of PCs and internet by the younger population is an additional telling sign for this positive trend.⁴³ However, internet penetration remains low by international standards, despite the fact that internet access prices at peak time are close to the OECD average. Efforts under way in promoting the information technology sector are mainly funded through the aforementioned *Operational Programme for the Information Society* with a total of € 2.8 billion over the period 2000-06 (Box 4). OPIS -- which gained an impetus in 2004 -- is a horizontal programme across the public sector, the research and education

community, as well as the business sector and, if fully and effectively implemented, should provide the fundamentals for a knowledge-based society with strengthened competitiveness and employment potential.

Box 4. An overview of recent development in ICT

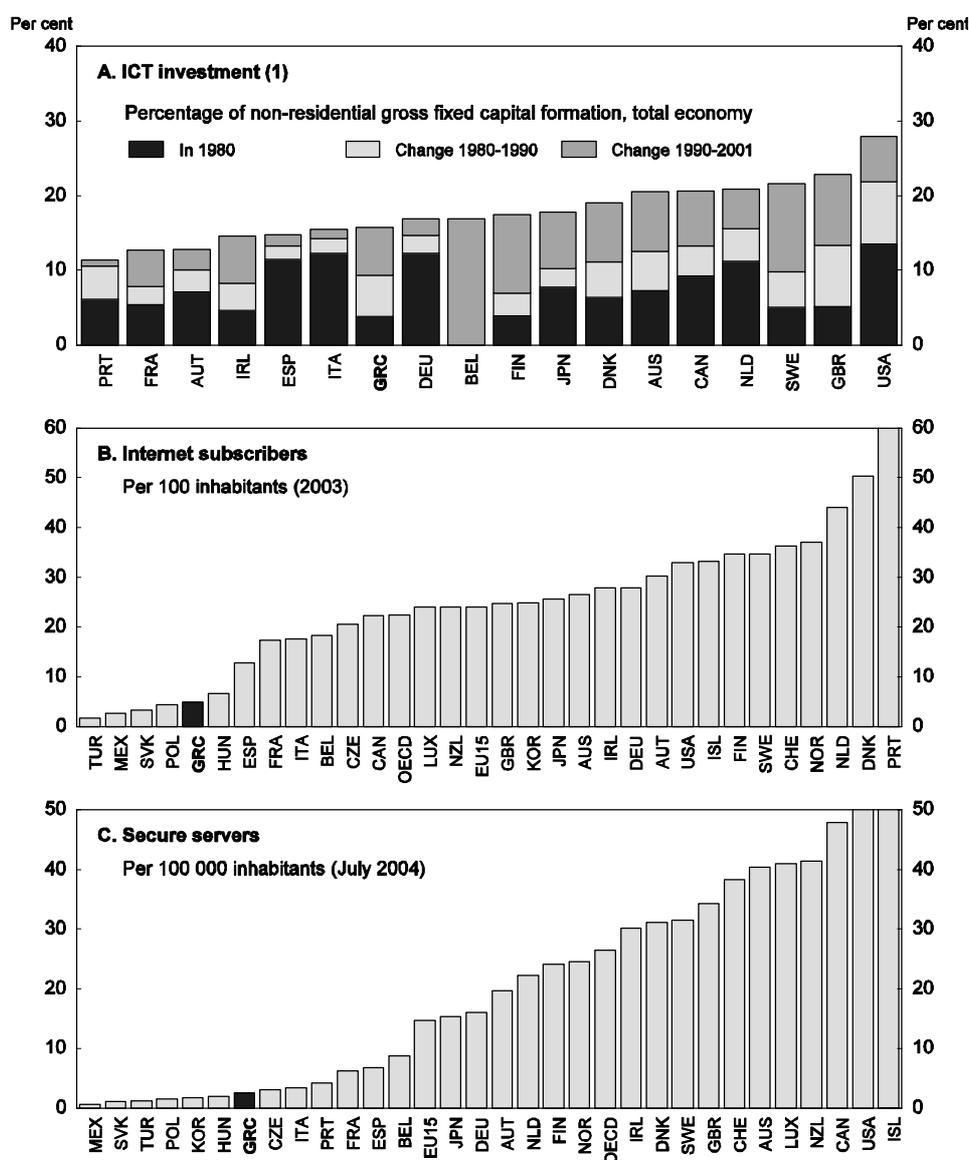
Greece implements its national ICT Strategy through the Operational Programme for Information Society (OPIS), in accordance with the EU Lisbon strategy and the relevant e-Europe 2005 policy. OPIS provides an overarching framework for all Information Society interventions, attaching priority to four axes: Education and Culture, Citizens and Quality of Life, Digital Economy and Employment, and Communications. Several programmes are financed through the OPIS aiming at promoting the use of ICT within the business communities. These include actions such as the "e-business development" and "Go electronically"¹, as well as the current implementation of the "Syzeftis" project for the public sector.

The number of ADSL lines installed in Greece is still at low levels, mainly as a result of high prices charged by the incumbent and an incomplete institutional framework governing telecommunications. Projects for wireless access to the Internet (*Wi-Fi*) for business and the development of "Metropolitan Area Networks" (optical rings) infrastructure in over 50 municipalities across Greece, aiming to interconnect "points" of public interest (such as schools, tax offices, administration) through a broadband network, constitute major interventions for changing the broadband landscape. The recently introduced investment incentives law of 2004 (Law 3299), provides additional financial incentives for new investment schemes in broadband infrastructure and services. Finally, as an important step towards improving the formulation of a knowledge-base strategy, the government launched in 2005 the Greek Observatory for the Information Society, having as a scope the monitoring, inventorying and reporting of trends in Greece and internationally.

-
1. Over 2 500 medium-sized firms have been funded so far under the action entitled "e-business development" (with a total budget of € 270 million) for porting business operations on electronic platforms. In addition, over 40 000 enterprises of small and very small size are set to be funded by the end of 2006 under the OPIS actions "Go electronically" and "Meteho" ("participate") for introducing new back-office systems and Internet networking to their operations and for ICT training.

Source: National Submission.

Figure 12. ICT indicators: an international comparison



1. ICT includes IT equipment, communication equipment and software.
2. 1980 and 1990 data not available for Belgium.

Source: OECD, *STI Scoreboard 2003*; OECD *Communications Outlook 2005*.

Progress in privatisation and sectoral reforms

29. The privatisation of state-owned enterprises advanced in 2002-2003, despite adverse market conditions, and raised nearly € 5.8 billion (Table 3). The new government, elected in March 2004, put the existing privatisation programme under review. Total privatisation proceeds amounted to a reported € 0.8 billion in 2004, about a quarter of the revenues raised in the previous year, and half of the proceeds targeted for 2005.⁴⁴

Table 3. Privatisation programme of public enterprises

2002 - 2004

Privatisations in 2002			
Company	% share sold	Method of privatisation	Amount raised by the State (bn euros)
Public Power Corporation I	16	Initial Public Offering	0.50
Public Power Corporation II	12	Secondary Offering	0.35
Hellenic Industrial Bank	57.8	Trade sale	0.51
Football Prognostics Organisation (OPAP)	19	Secondary Offering	0.51
Hellenic Telecommunications Organisation (OTE) VI	8	Accelerated Bookbuilding	0.65
Skaramaga Shipyards	100	Trade sale	0.05
Commercial Bank	2.37	Trade sale	0.06
Attica Beaches – Marinas (Subsidiary of Hellenic Tourist Properties S.A)	75	Long term operation contacts	0.05
Olympic Catering (subsidiary of Olympic Airways)	58	Trade sale	0.02
Total amount raised in 2002			2.66
Privatisations in 2003			
Company	% share sold	Method of privatisation	Amount raised by the State (bn euros)
AGNO	99.99	Trade sale	0.01
Duty Free Shops (KAE)	40	Trade sale	0.17
Hellenic Petroleum	16.65	Trade sale	0.33
Hellenic Casino (Mont Parnes S.A)	49	Trade sale	0.09
Hellenic Industrial Bank	Third instalment ¹		0.07
Football Prognostics Organisation (OPAP)	24.61	Additional Offering	0.74
Hellenic Stock Exchanges S.A.	33.4	Trade sale	0.09
Piraeus Port Authority	25	Initial Public Offering	0.06
National Bank of Greece	11	Trade sale to institutional investors	0.49
Public Power Corporation III	15.57	Additional Offering	0.64
Postal Savings Bank	---	Recapitalisation	0.35
General Bank	22.34	Trade sale	0.13
Total amount raised in 2003			3.15
Privatisations in 2004			
Company	% share sold	Method of privatisation	Amount raised by the State (bn euros)
Hellenic Petroleum	8.21	Trade sale	0.2
National Bank of Greece	7.45	Accelerated Bookbuilding	0.6
Total amount raised in 2004			0.8

1. It refers to the third and last instalment for the sale of 57.8% of the company's share.

Source: Ministry of Economy and Finance.

30. The new government plans to use all potential methods of privatisation including public private partnerships (PPPs), taking into account the specific characteristics of each case. Emphasis will be placed on privatisations facilitating the opening up of markets to competition, improving resource allocation, achieving an efficient level of regulation, and attracting FDI -- rather than on maximising privatisation receipts (Ministry of Economy and Finance, 2004). The government's focus on privatisations with wide-ranging repercussions for the economy is welcome. The establishment of a legal framework for PPPs, which was presented by the government in May 2005, could improve service delivery, while minimising the impact on public finances. It is indispensable, however, that the government undertakes a careful assessment of alternatives and routine use of cost-benefit calculations for all proposals.

31. Greece's progress in implementing a wide-ranging partial-privatisation programme of state-owned enterprises since the mid-1990s has been commendable. The benefits would have been larger if the state had relinquished its ability to control commercial policies in public utilities and to have withdrawn completely from private sector activities. The government continues to maintain a large (though falling) stake in major public utilities,⁴⁵ retaining the right to veto and block strategic decisions (such as asset sales) which it deems to be against the public interest.⁴⁶ This weakens private investor interest and reduces privatisation receipts (although this should not be the principal objective of divestiture).

32. More decisive action is also needed with respect to the opening up of network industries to competition. Steps taken so far include the liberalisation of the fixed telephony market (in 2001), the partial opening up of the electricity market (in 2001), provisions towards re-organising the oil products market (in 2002) and the opening up of domestic sea transport (as of November 2002). The results obtained have been mixed. Outturns have been satisfactory in the telecommunications sector, with tangible benefits for both consumers and producers. Less progress has been achieved in opening up the electricity sector, still dominated by the highly-integrated incumbent company. Assuring sufficient competition in newly liberalised markets, should be given higher priority. Strong and independent specific sector regulators are essential for achieving effective and vigorous competition in network industries, as well as for dealing with the inherently monopolistic segment of such industries.

Energy sector

33. Analysis of the energy sector in Greece has to bear in mind various geographical, historical and political considerations:

- Greece possesses no significant resource of oil, natural gas or high-quality coal. There are large deposits of low-cost but highly polluting lignite but with no possibility of expanding production. Average generating costs (excluding possible environmental externalities) using lignite are below long-run opportunity costs using other fuels.
- There are many remote mountainous and island communities in Greece, and many Greek islands cannot economically be supplied with electricity by undersea cable. They rely on sub-optimally sized generating stations, with fuel being delivered by comparatively small tankers.
- Furthermore, the population of the islands, and hence demand for power, varies enormously between the summer and winter months, meaning that generating capacity is uneconomically large for most of the year, but tariff structures are not permitted to reflect this.
- Greece has no land borders with any EU country, and trade in oil, gas or electricity with neighbouring Albania, Bulgaria and former Yugoslavia has until comparatively recently been politically impossible.

- There is a long post-war history of large-scale state ownership and control of much of industry and commerce; although such control is now diminishing rapidly, it remains more pervasive than in most EU countries. Tariffs have been held down artificially, and changes still require official authorisation.
- There are close relationships between the major electricity, gas and oil companies.

The implications of the above are that the cost structure of the Greek electricity sector is complex, that trade in fuels and power is likely to evolve radically, and that State involvement in the energy sector, though diminishing, continues to be substantial.

Electricity sector

34. Efficiency gains could be realised by the separation of production, transmission and distribution (unbundling) of electricity. Accounting separation may not be enough to provide a level playing field for all new market participants, as long as the Public Power Corporation (PPC) retains a dominant position in all aspects of the sector. A more radical solution would involve splitting up PPC into several independent and competing generation companies, if no signs of competition emerge in the near future, as there is little evidence of major economies of scale in generation. The electricity market was only partially privatised in 2001, with the state retaining the majority stake of PPC. In any event, whether competition can effectively occur and efficiency gains materialise depends on whether prices reflect costs of supply. No progress has been made so far, however, regarding the restructuring of electricity prices, notwithstanding the proposal by the Regulatory Authority for Energy (RAE). PPC has a *de facto* monopoly in the exploitation on favourable terms of the state-owned lignite deposits, which allows it to make some profits despite relatively low tariffs. Non-discriminatory access to transmission and distribution, along with “fair” access to customers are also crucial to attract private-sector participants to generation. In May 2005 the government approved the Administration Code of the Electric Energy Transactions System, which will go into effect initially for industry and by 2007 for other consumers. The Code aims at creating an attractive environment for major investment in the electricity sector and at increasing supply options for consumers.

35. The limited prospects for international competition, owing to both geographical and technical constraints, increases the need for Greece to boost generation capacity in line with growing demand for electricity. The EU initiative for the development of a competitive Regional Electricity Market in South-East Europe could contribute towards increased market contestability, enhancing the advantages to consumers. However, this would only occur in the medium or longer run. Given the legal and economic barriers to achieving effective competition in the electricity sector over the coming years, effective regulation is indispensable. To this end, steps need to be taken to enhance the powers of the Regulatory Authority of Energy by attributing to it wider responsibilities than that of a monitoring, advisory and referral agency.⁴⁷

Gas sector

36. As an emerging and isolated gas market, Greece has a derogation from the EU Gas Directive (2003/55) until November 2006. The government however has announced its intention to proceed to the opening up of the gas market before the end of the derogation period. Positive steps undertaken in this direction include: *i*) the establishment of regulatory responsibilities for the gas sector with the Regulatory Authority of Energy (that covers both the electricity and gas sectors) under the 1999 Electricity Market Law; and *ii*) the requirement of account unbundling in gas activities (in accordance with the provisions of the EU Directive). In response, the Public Natural Gas Corporation (DEPA) -- a vertically-integrated monopoly of the gas sector -- unbundled its accounts in 2001 (OECD 2002b). Progress has also been made towards the diversification of gas supplies *via* the interconnection of the Greek natural gas system.⁴⁸ An

essential step that the government needs to take is the introduction of a transparent and non-discriminatory third party access (TPA) tariff for all gas investors, enabling eligible customers to effectively choose among different gas suppliers. It is encouraging, in this context, that DEPA has prepared and submitted a TPA tariff structure proposal to the Ministry of Development. This indicates that transportation tariffs should be transparent and ensure third-party access to the natural gas transportation network without discrimination and at a reasonable and fair cost. The recommended gas tariffs are uniform across the country, with consumers being charged independently of their distance from natural gas entry points.⁴⁹ The government should further proceed to the removal of “the most favoured customer” contract between PPC and DEPA, which risks being a discriminatory practice towards other customers.⁵⁰ Indeed, in this context weakening the commercial, operational and/or financial links between major companies in the energy sector⁵¹ should be contemplated as a means to promote competition in the short run -- and the government’s consideration of the issue is welcome. These arrangements create a potential barrier to domestic energy sources competition. Separating the ownership of oil and gas distribution is therefore important. The decision-making power in many issues regarding gas distribution (including pricing by the regional Gas Supply Companies) granted to RAE is a welcome step.

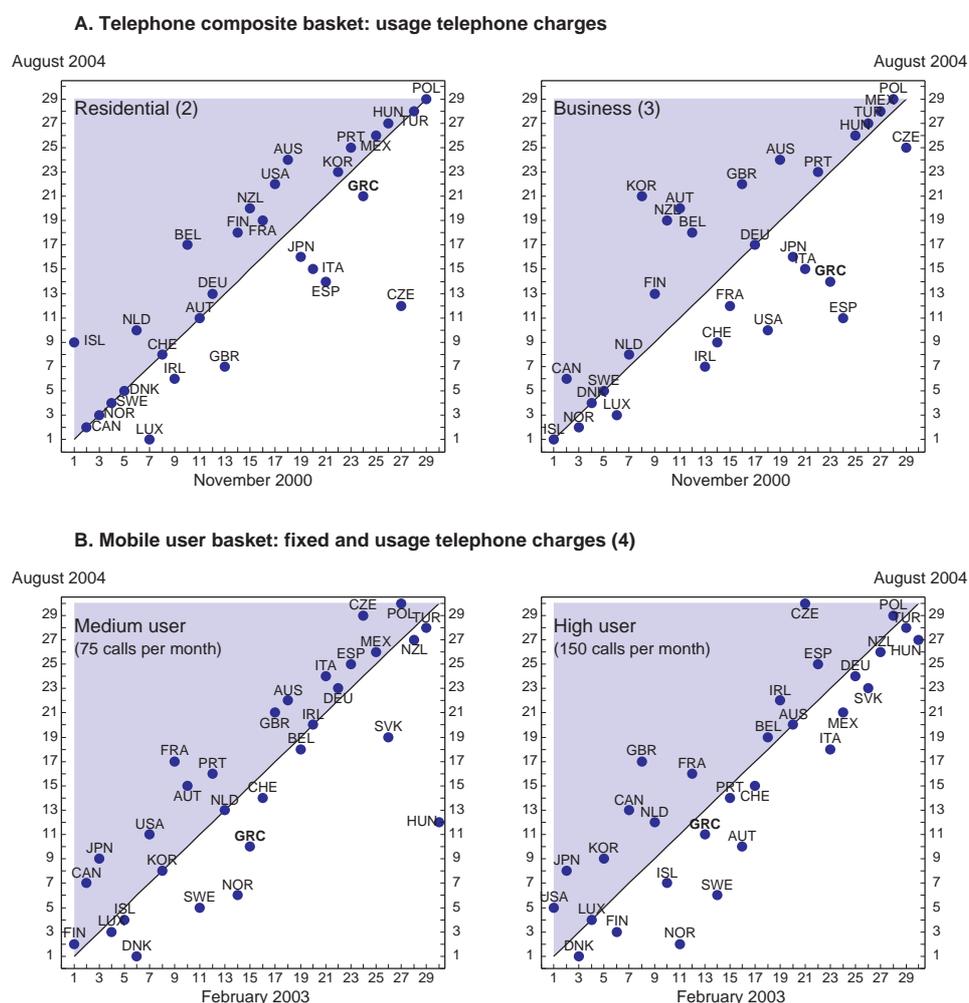
Oil sector

37. Following the liberalisation of the oil sector in 1992, competition has in fact intensified in retailing. It has remained limited in refining, however, reflecting the impact of statutory regulations.⁵² The introduction of Law 3054/2002 on the organisation of the mineral oils market is expected to enhance contestability in the refining sector, most visibly through enabling consortia or co-operatives of service stations to obtain oil products directly from refiners, or from imports provided they can meet storage obligations. Under the 2002 law, access to stock capacity can be arranged by a regulated third-party access tariff. These initiatives go in the right direction, as is the set up, in the Ministry of Development, of Inspection Teams for the Trafficking and Storage of Fuel (KEDAK) serving as a market monitoring mechanism (Law 3335 was approved in April 2005). Competition in the sector would be further strengthened by a greater diversification of the sources of oil imports,⁵³ as well as a less restrictive licensing procedure for the construction of storage facilities which would provide more room for imported refined products. For the moment, very few consortia or co-operatives have been created to take advantage of the existing regulatory framework. International Energy Agency (IEA) statistics show surprisingly large variations in ex-tax prices of refined products across EU countries. Those in Greece are at about the middle of the range.

Telecommunications

38. The telecommunications sector was liberalised in early 2001, when the fixed-voice telephony was opened up to competition, after a three-year derogation from the EU directive. There have been delays in the introduction of effective competition to the incumbent Hellenic Telecommunications Organisation (OTE), because of the late licensing that occurred in December 2000 that extended the period of its monopoly of fixed voice telephony. OTE became the first public enterprise in Greece with private majority stakes, although the government retains a blocking minority shareholding. Competition in the fixed telephony market has expanded markedly in recent years, with the alternative operators having gained at the end of 2003 a 15% market share (compared with 2% at end 2002). This has brought tangible benefits to consumers both in terms of operators’ choice and telephone charges⁵⁴ (Figure 13). The telecommunications market has been consistently expanding since the late 1990s, though at a decreasing pace in the past two years.

Figure 13. Telecommunications market: ranking of OECD countries according to telephone charges
 Rankings in ascending order (lowest price=1)¹



1. Telephone ranking excludes Slovakia. Usage charges adjusted based on current purchasing power parities. Countries in the shaded area have below average progress.
2. VAT included. The basket includes 1 200 fixed-line calls, 120 mobile calls and 72 international calls per year.
3. VAT excluded. The basket includes 3 600 fixed-line calls, 360 mobile calls and 216 international calls per year.
4. VAT included. Includes calls to fixed networks, to other users on the same network and to other users on different mobile networks.

Source: OECD, Communications database.

39. Unbundled access to the local loop (LLU) started slowly in Greece, but demand has been increasing since 2003, reflecting a number of interventions from the part of the regulatory authority.⁵⁵ Greece has been one of the last OECD countries to offer DSL, but services based on the ADSL provision are rising. Measures taken by the regulatory authority to promote the establishment of alternative infrastructure in Greece -- including the awarding of eight licenses for the provision of Fixed Wireless Access in 2000 and of three UMTS licenses in 2001 -- are steps in the right direction for fostering competition in the medium to longer term.

40. There are four mobile operators, with no plans (or requests) for the granting of a fifth licence. Although Greece was the last country in the EU to grant licences to mobile phone operators, mobile

telephony has already achieved a penetration rate of around 82%. The intensified competition between the operators has led to an increase in the provided services, accompanied by a decline in charges. The coverage of 3G networks has been progressing according to the stipulations of the July 2001 UMTS licenses and is expected to reach to 50% of the population by 2006. The commercial offering of 3G services was launched by all three operators during 2004, as envisaged in the licenses.

Transport

41. Despite the commitment of the government, the privatisation of national airline⁵⁶ is still proving difficult because of the adverse international market conditions, and it is still pending. The trucking sector has not yet moved to a liberalised regime. The current legal framework, which regulates the operation of freight transport undertakings, is currently under consideration -- in accordance with the *Action Plan* regarding the modernisation and liberalisation of the sector.⁵⁷ In the sea transport sector, the domestic ferry market was liberalised in 2002 (before the expiration of the derogation period). All powers and responsibilities of the Regulatory Authority of Maritime Transport, in terms of competition rules, including imposing fines, were transferred to the Competition Committee in order to obtain a more effective and efficient monitoring of the sector.

Improving the climate for entrepreneurship

42. Productivity growth could be enhanced by measures facilitating the creation and exit of companies and reducing the cost of their operations. This implies removing restrictions which impede the entry of new, innovative and potentially highly productive firms or which slow the exit of less productive ones, and thereby hold back productivity gains. To this end, institutional infrastructures (in particular bankruptcy procedures and the judiciary system) should be modified, and bureaucratic processes simplified and, indeed, this process is underway.⁵⁸

Incentives and barriers to entrepreneurship

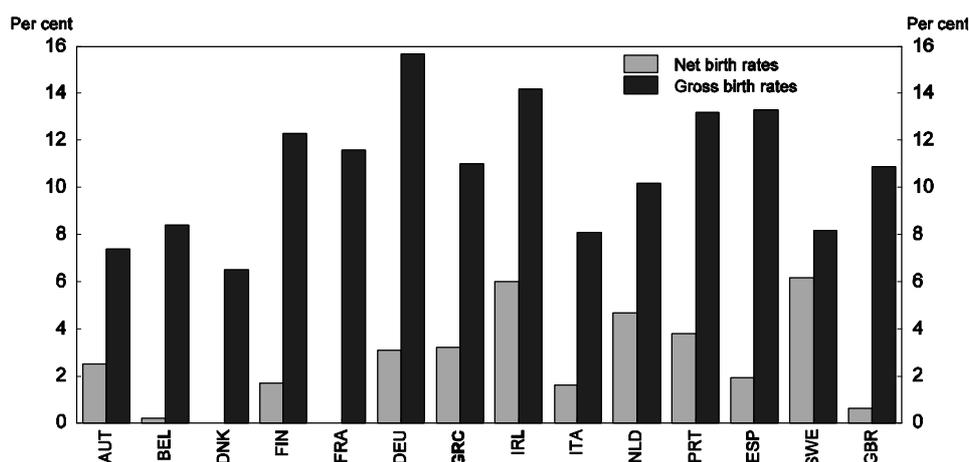
43. In striking contrast to the adverse regulatory environment, values and habits have long encouraged a strong entrepreneurial culture. Surveys show an overwhelming propensity of the Greek population to choose self-employment over dependent employment, comparable to that of the United States.⁵⁹ And in fact, over one-third of the Greek total employment is self-employed (28.5% in the non agricultural sector), which in part also reflects a substantial bias of the Greek tax system in their favour.⁶⁰ Also, according to a recent study conducted by the Foundation for Economic and Industrial Research (IOBE) for the *Global Entrepreneurship Monitor*, in 2003 Greece belonged to a cluster of countries, mainly European, that display medium levels of entrepreneurial activity; however, Greece exhibits a high degree of "necessity entrepreneurship", *i.e.* entrepreneurial activity undertaken because there are no other options for earning a living, whereas only a small percentage of new business start-ups can be considered of "high potential". The recruitment of personnel appears relatively unbureaucratic in Greece,⁶¹ with the number of administrative procedures when recruiting the first or an additional employee being the second lowest (after Sweden) in a sample of 19 European countries⁶².

44. However, the gross or net birth rates of enterprises are not high by international comparison (Figure 14). This appears to result from the fact that, at least until very recently, barriers to firm creation have been particularly burdensome, possibly discouraging foreign investors and giving rise to corruption. For example, approval of the articles of association for a new business has required several transfers of documents between the prefecture authorities, the notaries, and the tax authorities. The World Bank (2003) reports 16 different procedures which are required to secure a new firm's operating license, one of the highest in the world. Moreover, the monetary costs of establishing a new enterprise are among the highest in the EU.⁶³ Altogether, the administrative burden on business start-ups from the enterprise owners' point of view has not only increased since 1997, but has done so by more than any other of the surveyed

European countries⁶⁴ (Figure 15). If the reason for these barriers is to discourage evasion of taxes by the self-employed, the solution is ensuring better compliance from the self-employed (e.g. by more audits), not imposing dead-weight costs on entrepreneurs. There is also evidence that OECD countries that impose high costs on the establishment of new companies are not able to create enough jobs in the service sector to successfully absorb the workers released from the agriculture and industry sector, resulting in higher unemployment.⁶⁵

Figure 14. Net and gross birth rates of enterprises in the EU¹

Per cent of enterprises, average over the period 1995-2000

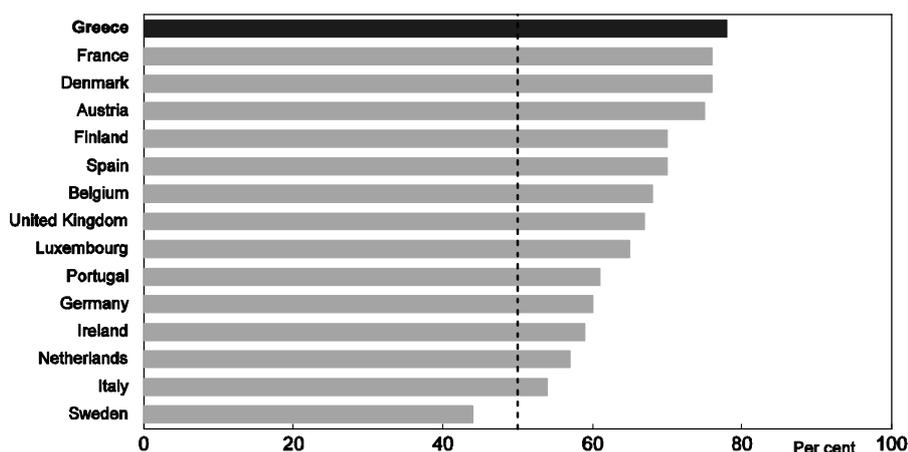


1. National definitions. Data are not comparable across countries.

Source: Observatory of European SMEs, Report 2002 / No. 5: Business demography in Europe.

Figure 15. Development of administrative burden on enterprises in Europe

Share of enterprises in the EU indicating an increase in burden from 1997 to 2001

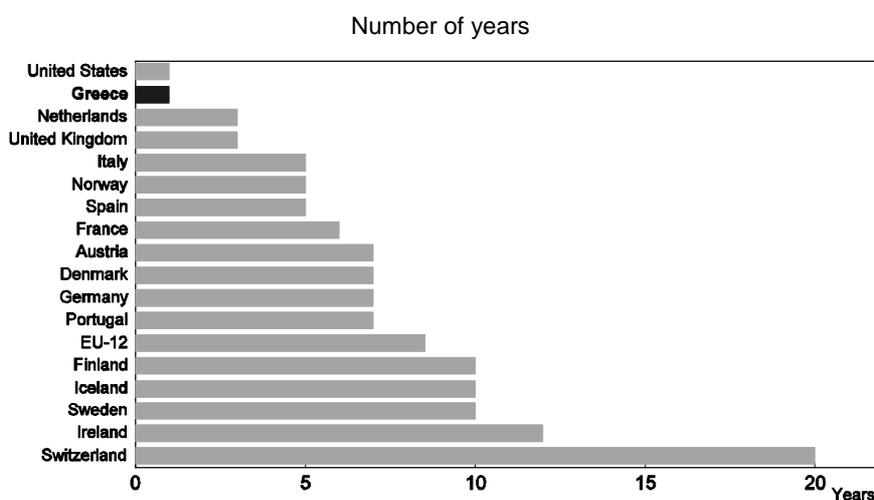


Source: Observatory of European SMEs, Report 2002 / No. 7: Recruitment of employees: Administrative burdens on SMEs in Europe.

45. In addition, access to finance is perceived by Greek firms as more difficult than on average in other EU member countries,⁶⁶ in spite of recent financial market reforms. In part, this reflects banks' usual demand for collateral worth substantially more than the amount they lend, to avoid recourse to time-consuming legal steps to recover assets from companies which have failed. This practice largely results

from the legal system's treatment of firm bankruptcies. *De jure*, the system appears to strictly support creditor rights (e.g. the managers are routinely ousted from the insolvent company and the decision to liquidate is taken by an outside officer). In practice, however, the system rather favours debtors as the length of time during which creditors can lay claims on a bankrupt's assets is one year, rather short by international comparison (Figure 16). Moreover, legal procedures are very slow in Greece and becoming more so, as witnessed by the substantial increase over time in the number of court cases that take more than one year to decide. With strict bank secrecy laws being a major obstacle, the courts are in general unable to seize bank assets. This could tempt incorporated firms to avoid contractual obligations, contributing to the recourse to large guarantees by creditors. For unincorporated firms, however, firm bankruptcy implies personal bankruptcy, and thus may act as a disincentive to entrepreneurship. The government is preparing a reform of the bankruptcy law.

Figure 16. International comparison of the time-span to have claims on a bankrupt's assets in 2000



Source: Union of Industrial and Employers' Confederations of Europe (UNICE), "Stimulating creativity and Innovation in Europe - the UNICE benchmarking Report 2000".

Encouraging business start-ups

46. Law 2941/2001 (on the reduction of the administrative burden on business start-ups) aimed at the registration on a single day, of any Public Limited Company with a paid-up share capital of less than € 300 000, without prior validation of its company statute by the Public Authorities. This regulation is estimated to affect almost 85% of all new *Sociétés Anonymes*. The law also provides for a reduction in the number of administrative stages of the licensing procedure and requires dealing with six rather than eleven government agencies. Although this is still rather cumbersome, the government expects the reform to reduce the cost of setting up a new business by some 30% and to cut the time needed to complete a licensing procedure from two months to one week. Another step decided in 2001 was the establishment of local one-stop-shops for potential investors or entrepreneurs. In early 2005, 53 Centres were operating.

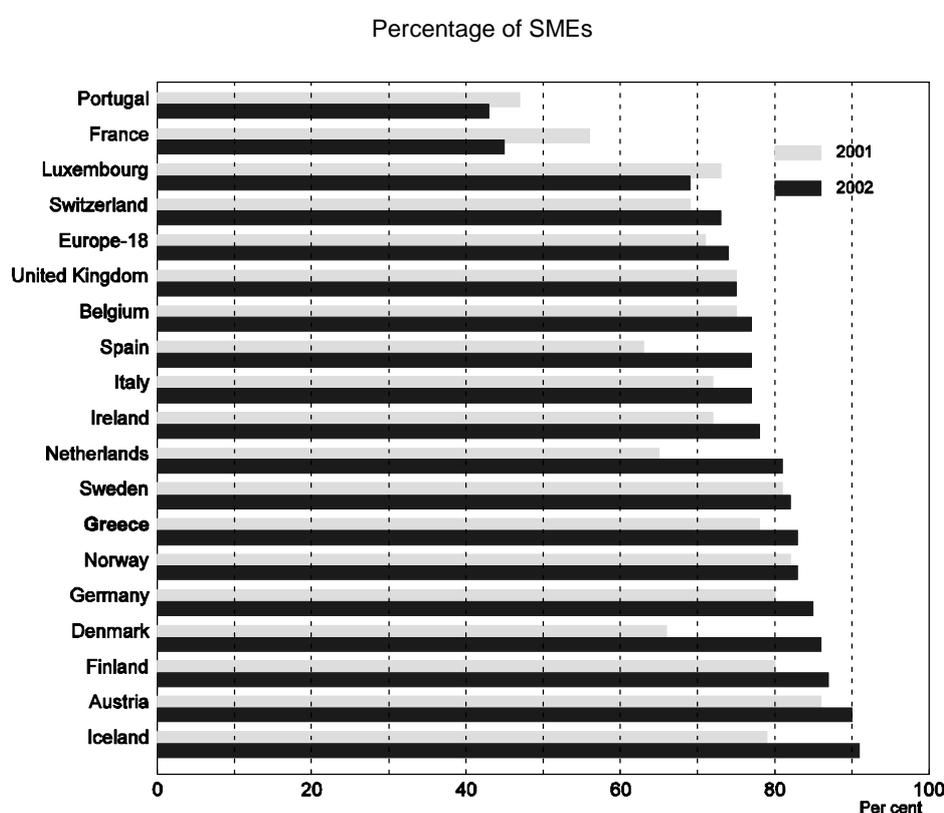
47. The new government proposed in 2005 a law to Parliament which replaces previous legislation on business licensing. The new law 3325 of 2005:

- Abolishes 12 required documents for getting an establishment licence;
- Will result in an estimated reduction of the time required for "unproblematic" applications to get an establishment licence from 12 months to 10 to 30 days;

- Reduces the time required for more complex cases by fewer procedures and the effective function of “one-stop shops” at Prefectural Authorities;
- Makes establishment and operating licenses no longer obligatory for very small enterprises.

The government is also undertaking a number of initiatives funded by the EU Community Support Framework including those which focus on the encouragement of SMEs to embark on e-commerce. In this context, the “e-business Forum” has been established.⁶⁷ Latest data suggest that the Greek SMEs’ access to the Internet, which ranked very low by international comparison until recently, is now more widespread than in most other European countries (Figure 17). To further promote entrepreneurial activities, particularly in rural areas, a geographically dispersed, but centrally co-ordinated support network for SMEs (Centres of Entrepreneurial and Technological Development) was created. At the beginning of 2005, 13 Centres were operating, which aim to enhance the information and consultation services provided by government agencies to SMEs, mainly in the fields of manufacturing and tourism. Now that these programmes are fully implemented, an evaluation of their cost-effectiveness should be undertaken.

Figure 17. SME Internet access in selected OECD countries in 2001 and 2002



Source: Observatory of European SMEs, Report 2002 / No. 8: Highlights from the 2002 survey on SMEs in Europe.

Facilitating the SMEs’ access to funding

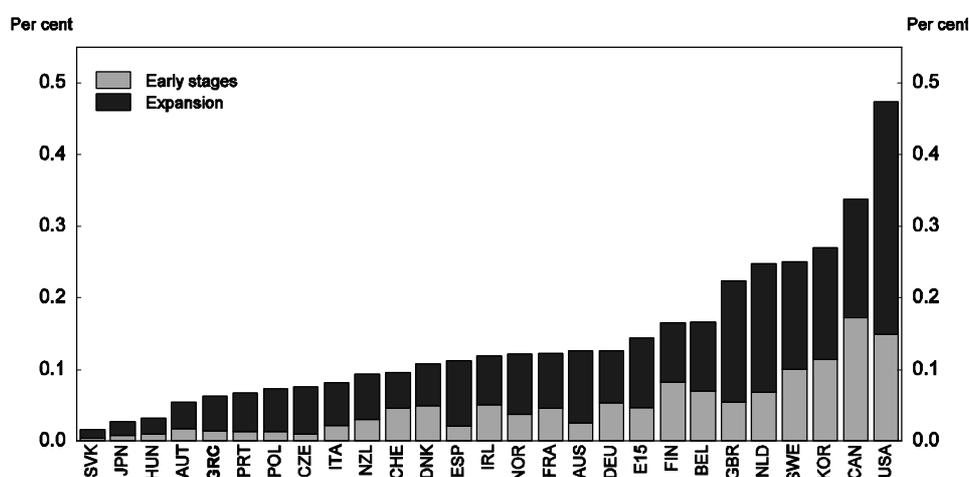
48. Lack of financial support is an obstacle to entrepreneurship in Greece.⁶⁸ The government has introduced legislation (Law 3066/2002) to create a Credit Guarantee Fund for Small and Very Small Enterprises (TEMPME), which guarantees loans for the establishment, relocation, and further development of small and very small enterprises. The fund had an initial capital of € 100 million (which was increased to € 200 million in December 2004) and offers guarantees for a loan volume of up to € 2 billion during the

current decade. It is estimated by the government that more than 40 000 enterprises will take advantage of this Fund.

49. An alternative to bank credit is venture capital,⁶⁹ in its infancy in Greece (Figure 18 Most venture capital firms are offshoots of large banks, as opposed to the more specialised (often small) companies that characterise the venture capital market elsewhere, and the Greek institutions usually fund relatively established enterprises. The government has undertaken a number of initiatives to improve the institutional framework. Law 2992/2002 includes provisions for the establishment of Venture Capital Mutual Funds (VCMF) and offers a more flexible legal structure for investing in venture capital operating on the basis of contracts signed by the manager, the depository and the shareholders. Investors in VCMF pay no tax on the returns from their investments.

Figure 18. Investment in venture capital, 1999-2002

As a percentage of GDP



Source: OECD, Venture Capital Database, 2003.

50. In addition, the government established⁷⁰ the New Economy Development Fund (NEDF) as a venture capital “fund-of-funds”. Its purpose is to co-finance the formation of venture capital funds, which invests in innovative small enterprises at early development stages. NEDF is a minority investor and the funds in which it participates are managed by the private sector, with investment decisions taken on a commercial basis. The NEDF scheme was cleared in 2002 by the European Commission, which considered the implicit aid compatible with the EC Treaty. NEDF has already participated in three venture capital funds and has contributed to the creation of the first regional venture capital fund.

51. Access of SMEs (defined as firms with up to 250 employees) to capital should be facilitated further by the new Private Investment Incentives Law, which came into force in early 2005 and replaces legislation introduced in 1998 and modified in 2001. Subsidies of € 500 million will be provided in 2005, which aim at supporting certain types of investments in regions outside industrial centres in the form of cash grants of up to 40% of the invested funds, very generous tax credits, and wage subsidies for newly created jobs. Both existing firms and business start-ups are eligible. For start-ups to qualify for aid, the share of own capital provided by the investor is 25%, down from 40% required under the previous law.

52. In sum, to promote a more dynamic private sector, the government should overhaul bureaucratic requirements for start-ups, to take full advantage of the high propensity to entrepreneurship in Greece. In this regard, the speed and efficiency of the judicial system needs to be increased to improve contract

enforcement. The re-examination of the bankruptcy legislation, currently underway with a view to facilitate loan recovery, should improve the efficiency of financial intermediation.

Corporate governance

The 1999 Code

53. Ownership in Greece has been highly concentrated and associated with complex corporate groups while creditor and shareholder rights have been limited. Although concentrated ownership has a number of advantages, at least in the early stages of development, the potential for abuse is also great unless transparency standards are high. The 1999 *Code of Corporate Governance* published by the Hellenic Capital Market Commission formulated principles and best practice rules closely modelled according to *OECD Principles on Corporate Governance*, (1999).

The 2002 law on corporate governance

54. The 1999 *Code of Corporate Governance* only made recommendations to be adopted voluntarily by listed corporations and was not even relevant for listing requirements. Very few companies proceeded voluntarily with the restructuring of boards, leading to inadequate corporate accountability and specific corporate abuses. The government enacted a law on corporate governance in June 2002, which applies to all listed companies including banks and which came into effect in July 2003 (Law 3016/2002). Main features of the law are the definition of the duties of board of directors, the safeguarding of minority shareholders' rights and the definition of the role of internal auditors.

55. Law 3016 establishes the role of independent, non-executive directors, defines audit functions, establishes a public audit oversight board, improves the disclosure of information and its dissemination to the shareholders of listed companies, and regulates possible conflicts of interest in the provision of audit services. Although measures are in the right direction, it remains to be seen if in practice this law provides for a sufficient level of transparency in the corporations' internal governance processes, the market for corporate control, and the structure and compensation of the different agents governing the corporation. Also it is not clear if minority shareholder rights in joint-stock companies are now sufficiently recognised and protected, given the prevailing high ownership concentration of Greece's listed companies. The authorities have been taking steps to the enforcement of the law. Further legislation should address the issues of separating external audit and consulting services, and of auditor rotation, although the latter might prove difficult for a small country. Adoption of the new code should be made a requirement for listed corporations.

NOTES

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1. The authors are economists in the Economics Department at the OECD. This paper draws on material originally produced for the *OECD Economic Survey of Greece* published in July 2005 under the responsibility of the Economic and Development Review Committee. The authors are indebted to Nicholas Vanston for comments and drafting suggestions. Helpful comments were also provided by Val Koromzay and Andrew Dean. Special thanks go to Sylvie Toly for excellent technical assistance.
 2. See Ministry of Economy and Finance (2004), National Report on Structural Reforms, October. In its *Convergence Charter* of September 2003, the previous Greek government had formulated a strategy aimed at increasing Greece's per capita GDP at purchasing power parity exchange rates by 10 percentage points relative to that of the EU-15 in 2008, a rather ambitious goal.
 3. These countries are Canada, New Zealand, Finland, Iceland and Ireland.
 4. These include increasing participation of women, the influx of immigrant workers, industrial sector downsizing, and the decline in rural employment.
 5. This reflected in part the onerous consensus required for an opt-out agreement, but also some cultural reluctance due to a lack of tradition in this area. As discussed in various *OECD Economic Surveys of Greece*, the Territorial Employment Pacts, introduced in the context of the 1998 labour market reforms, permitted an "opt out" from sectoral wage agreements in pre-determined area of high unemployment and industrial decline.
 6. See OECD (1998a), and Marlier and Pontieux (2000).
 7. Law 2874/2000 (as amended by Law 2972/2001) provided for a 2 percentage points reduction of the employer's social security contributions for low-wage workers. Law 2837/2000 provided for a 6.67 percentage points reduction of the employee's social security contributions (only for minimum wage and salary earners). If these measures are taken into account, social security contributions account approximately 33% of total gross labour costs.
 8. This implies that the unemployed person, now as an employee (in a full-time or part-time job), receives in addition to amount he/she would be entitled if unemployed (the cost of which is born by the Public Employment Services), the difference making up the wage for his/her job determined by collective wage agreements; at the same time, the beneficiary will be insured as any other employed person (apart from unemployment insurance). In case that the individual in question is fired, or leaves the job before the expiration of the entitlement period for subsidy, he/she will receive the unemployment benefit for the remainder of the eligibility period, provided that there is no placement in another job (Ministry of Employment and Social Protection, 2003).
 9. For discussion, see *OECD Employment Outlook* 2003.
 10. Under Law 2874/2000, for firms with less than 50 employees, the threshold of collective dismissals lowers to 4 from 5 workers, and for firms between 50 and 199 employees the limit is also 4, instead of between 1 and 4. The "two per cent" threshold will continue to apply for firms with more than 200 employees.
 11. Dismissal costs in the case of white collar workers reach up to 24 monthly salaries with employment longer than 28 years with the same employer. However, for blue-collar workers, severance payments amount (according to the May 2004 National General Collective Agreement) to 160 daily wages for employment of 30 and more years at the employer. For both groups of workers lay off costs increase with job tenure.

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12. For discussion, see OECD *Employment Outlook 2004*.
 13. During the period 1993-97, on average, 35.2% of the men and 25.1% of the women who had a part-time job moved to a full-time one within a year. The figures at the EU level stand at 33.1% and 16.2%, respectively (Taylor, 2002). For a discussion see also Employment Observatory Research (2003).
 14. In addition to financial incentives, the 2000 labour market reform also attempted to enlarge the scope for part-time work by abolishing the possibility of overtime for part-time workers. For a more detailed description see the 2001 and 2002 OECD *Economic Surveys of Greece*.
 15. The structure of social security contributions does not appear to be a major factor discouraging part-time work, as contributions are pro-rated. In general, contributions are calculated on actual earnings; however, the lowest imputed daily wage on which IKA social security contributions can be calculated is set at € 7.07 for 2005, *i.e.* it is equal to only 27% of the minimum daily wage (thus corresponding to only 2.2 hours of work per day for minimum wage earners).
 16. Childcare subsidies may be more effective by conditioning their receipt on the employment of the mother, or at least on active job-search. Effectiveness could also be increased by targeting subsidies to low-income mothers whose labour supply is more elastic to the net wage (Jaumotte, 2003).
 17. The 2004 law redefines the regulatory framework for the recruitment of part-time staff in the public sector, entailed in Law 3147/2003. The selection of the applicants for the new posts is based on social criteria. For example, 30% of the posts to unemployed workers (above 30 years of age) who have exhausted their unemployment benefits. Part time-employees who are employed under the provisions of the 2004 law will not be able to work more than 20 hours a week or for longer than 18 months at a time. The government has announced the recruitment of 13 000 part-timers in the public sector.
 18. See, Ministry of Employment and Social Protection (2002 and 2003).
 19. The 2000 Law provided for a reduction of the weekly overtime which is at the employers' discretion ("unregulated" overtime) from eight to three hours per week (while the contractually agreed workweek of a full-time employee remains 40 hours), and an increase in the premia for overtime. In the May 2004 National General Collective Agreement, both parties state that they agree to ask the government to add two more hours (the 44th and the 45th) to the weekly overtime which is at the discretion of the employers (keeping overtime premia at 50%).
 20. See, for example, Institute of Labour GSEE-ADEDY (2002).
 21. Regional unemployment rates in 2004 ranged between 5.9% for Crete and 16.4% for Western Macedonia (Greek LFS). For more information on labour mobility, see European Commission (2004).
 22. On the basis of the 1999 Household Budget Survey, the degree of owner occupation stands at 79.6% of all households.
 23. The duration of unemployment benefits in Greece ranges between 5 and 12 months, depending on the length of the previous employment.
 24. See, Ministry of Employment and Social Protection (2003).
 25. For specific categories of unemployed persons, doubling of the subsidy is provided for.
 26. According to August 2004 data included in the 2004 National Action Plan of Employment, 17% of the registered unemployed had benefited from individualised services, with the percentage for women standing at 20%.
 27. The findings of the OECD Growth Project are summarised in OECD (2003b).
 28. The OECD Secretariat's synthetic indicators of product market regulations -- see Nicoletti *et al.* (1999) -- suggest that the intensity of competition in Greek non-manufacturing industries (notably utilities and transport) is low by international comparison. This finding has been confirmed by the estimates by Jean and Nicoletti (2002) of comparatively high industry-specific wage-premia in both manufacturing and non-manufacturing industries, corrected for individuals' and employers' characteristics. While these premia

might to some extent reflect efficiency wages to attract higher skilled workers and to avoid the costs of monitoring and collecting information, the Jean/Nicoletti study concludes that labour market rents in the form of wage premia are relatively higher where regulations restrict competition most and are thus a symptom of deficient competition.

29. See OECD (2003), *Economic Outlook No. 73, Figures VII.1 and VII.3*. Greece FDI restrictions are primarily in the form of limits on foreign ownership and restrictions on foreign personnel and operational freedom while there is no screening of economic benefits nor a national interests test.
30. See OECD (2003), *Economic Outlook No. 73*, Chapter VIII, and Figure VIII.5 in particular.
31. Recent legislation (Law 3299 of 2004) proposes provisions of a stable and favourable tax treatment of large-scale investments as a means to attract FDI. However, OECD estimates suggest that the effective average tax rates on inward foreign direct investment in Greece is below the average of OECD countries and thus unlikely to be a major cause of low FDI inflows.
32. The study applied a time-varying indicator of the regulatory stance in seven network industries from 1978 to 1998 to represent the evolution of the general regulatory framework in individual countries. Although the speed of progress varied, substantial regulatory reforms were implemented in all OECD countries over this period, increasing individual countries' employment rates by an average of 1½ and up to around 2½ percentage points where reforms have been pursued most vigorously.
33. The Competition Committee's almost exclusive dealing with mergers before the 2000 reform law was largely due to the very low thresholds for notification above which merger control was mandatory.
34. The Hellenic Competition Committee is supervised by the Minister of Development, who appoints its members, including the Chairman and his deputy, for renewable three- year periods. Before the Chairman's appointment, the Parliament's competent committee has to deliver an opinion on the nominee for the Chairman's position according to its internal rule of procedure. The functions of the Competition Committee include the prohibition of cartels and abuses of dominant position, the control of concentrations, the maintenance of registers, the granting of derogations and negative clearances, the imposition of sanctions, the adoption of provisional measures and the rendering of opinions on competition matters and relevant legislative proposals. Where appropriate, the Committee conducts investigations and gathers information. Many changes to the above are included in the new draft law made public by the government in March 2005.
35. For a brief overview of the reform of competition policy in 2000 and its background see the 2002 OECD *Economic Survey of Greece*, Chapter III.
36. Substantial fines -- by Greek standards-- amounting to € 2.9 million, were imposed in one case of abuse of a dominant position in the soft drinks retail trade and in one case of failure to comply with the obligation of previous notification of a large merger in the shipping business. In the merger case the fine was € 6.3 million-- the highest imposed by the Committee until recently. The latest case (which had been under investigation since the autumn of 2004) involved agreements between certain supermarket chains and their suppliers in order to hinder sales below cost by competitor chains; in mid-April 2005, a fine of € 15 million was imposed on the Association of Greek Supermarket Businesses (SESME) and additional fines totalling € 2 million to seven supermarket chains (the decision is to be ratified by a plenary session of the Competition Committee on 19 May). (Also see Bank of Greece, 2005a.).
37. That number could be increased by presidential decree.
38. The effectiveness of enforcement of competition policy is likely to be related to the resources that are committed to it. Based on staff numbers of competition agencies relative to the size of the economy, enforcement efforts differ significantly across Member countries. However, there is some tendency for the staff/GDP ratio to be systematically related to the size of the economy, which could reflect some economies of scale in enforcement activity. After adjusting for the size of the economy, the staff/GDP ratio appears to be relatively low in Switzerland, Greece, Ireland and Spain.

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39. The incentives provided for the promotion of R&D and innovation take the form of cash grants, subsidies for interest payments and leasing expenditures, and tax allowance. The most recent incentives to innovative firms are included in the investment incentives law and the tax law of 2004.
 40. The recently established Greek Research and Technology Network (GRNET/EDET) provides academics and research institutions, as well as the public and private sectors, with national and international networking services.
 41. The government funded partially, in 2004, 25 co-operations between firms and R&D centres, universities and training institutions (European Commission, 2005).
 42. The introduced conditions regard the diffusion and market exploitation of research results, academic spin-off companies, new firm creation by young entrepreneurs, development of incubators and science and technology parks with new technology-based firms, and merging of smaller R&D institutes into larger unit in order to reduce the fragmentation of the research system in Greece.
 43. The share of population between 15 and 17 years old using the Internet is 20% compared with 7% for the 45-54 age group. The figures for the users of a PC stand at 48 and 18%, respectively (Source: National Survey on *The Use of Personal Computers, Internet & Mobile Telephony in Greece*, 2001, GRNET).
 44. The privatisation program under way includes: the development of Hellenic Republic's participations in listed companies; the restructuring of Postal Savings Bank and its subsequent initial public offering (IPO) on the Athens Exchange; and the sale of at least 51% stake in the newly established Olympic Airlines and/or the business units of Olympic Airways Services (for example, handling, cargo, technical maintenance). Moreover, the government focuses on the exploitation of the state property assets, while it is investigating the maximization of value of Hellenic Republic's participations in non-listed companies (such as, Hellenic Postal Services (ELTA) and Public Gas Corporation (DEPA)).
 45. A legislation was passed in late 2000 permitting the sale of more than 49% of Hellenic Telecommunications Organisation. This was followed by similar company-specific legislation in 2001, for Olympic Airways and Hellenic Petroleum.
 46. Moreover, Law 3049/2002 on "Privatisation of Public Enterprises and other Provisions" stipulates that a joint ministerial decision may provide that the state shall hold a number of shares incorporating increased rights ("special share"), such as veto right over the passing of resolutions that have been characterised as having strategic importance. The new provisions have not yet been implemented and are not intended to in the near future. If implemented, they will be in accordance with EU regulations; that is, they will protect public interest, will not be discriminatory, and will support capital movements.
 47. RAE was granted financial independence in 2000. At present, the provision of generation licenses, end-user and network tariff-setting, and responsibility of public service obligation rest with the Minister of Development.
 48. DEPA currently has two long-term gas supply sources: Russia and Algeria. Additional supply sources may arise from East (Caspian and Middle East region) depending on the progress of inter-connectors (Turkey-Greece-West Balkan region). The construction of the Greek-Turkish natural gas pipeline has already commenced and is expected to be completed in 2006.
 49. When the market will open to third parties, the government is considering a pricing system based on the commodity price and transportation fee.
 50. This specifies that DEPA cannot sell natural gas to a third party at a lower price than agreed with PPC.
 51. For example, PPC controls the lignite mines, while there is a profit sharing agreement between PPC and DEPA on natural gas operation. In addition, Hellenic Petroleum owns 35% of the shares of DEPA.
 52. See OECD (1998b) and Mylonas and Papaconstantinou (2001).
 53. Greece has diversified marginally its sources of crude oil through an increase in its imports from the former Soviet Union. Supplies from Middle East, however, still account for around 72% of the total (OECD 2002b).

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54. In June 2004, each consumer had a choice of at least 7 operators for local calls and at least 12 operators for long distance and international calls, including OTE. This is also evidenced by the consistently decreasing communications consumer index.
 55. The number of unbundled lines exceeded 1 635 in September 2004, compared to 432 and 93 in September 2003 and 2002 respectively. In 2001, the regulation was issued for the RUO (Reference Unbundling Offer), which constitutes the basis for negotiating unbundling agreements between OTE and the new operators.
 56. Law 3185/2003 transferred the flight operations of Olympic Airways Services to Olympic Airlines.
 57. The government intends to reform the current framework, abolish the existing restrictions, and establish some special economic incentives.
 58. An international comparison of public sector efficiency by Afonso, Schuknecht and Tanzi (2003) puts the efficiency and performance of the Greek administration at the low end of the spectrum.
 59. See European Commission (2002a), p. 46, which shows a propensity towards entrepreneurship in Greece in 2000 and 2001 as the highest in the European Union and somewhat higher than in the United States, although the comparison may be affected by cyclical differences in the economies compared. Also, the high structural unemployment of Greece may act as a strong “push-factor” for self-employment.
 60. Social security contributions are effectively much lower for self-employed than for dependent workers, which is likely to have contributed to the large share of small unincorporated firms and non-agricultural self-employed in Greece. See also the special Chapter on “Reforming the Greek tax system” in the 2001 OECD *Economic Survey of Greece*.
 61. European Commission (2002a), p. 32.
 62. The countries covered are the 18 countries of the European Economic Area and Switzerland. See European Commission (2002c).
 63. The minimum registration cost for setting up a company is less than € 100 in most EU countries while it is € 750 in Greece. The minimum amount of capital required for a private limited company range from € 1 in Ireland and the United Kingdom to € 23 500 in Greece. See European Commission (2000), and World Bank (2003) for a global comparison.
 64. See European Commission (2002d).
 65. See Lopez-Garcia (2003).
 66. European Commission (2002b). Among EU member countries the lack of financial support was characterised as “most bothersome in Greece” (*ibid.*, p. 47).
 67. In a benchmarking exercise, conducted by the European Commission’s Enterprise Directorate-General and in co-operation with the OECD, the Greek “e-business Forum” was classified among the five best examples of good practice out of a total of 200 e-business programmes from all member states. See E-business Policy Group (2002).
 68. See European Commission (2002b) and Mylonas and Papaconstantinou (2001).
 69. Venture capital is a special type of equity finance for typically young, high-risk and often high-technology firms. These mostly smaller enterprises need capital to fund start-up, product development or growth and must, by the nature of their business, obtain this capital largely in the form of equity. Heavy reliance on intangible assets, uncertain operating environments and negative cash flows make it unlikely that start-up firms can access bank loans or use other debt financing instruments. Consequently, without venture capital, many of these dynamic firms would be capital-constrained and fail to survive. Venture capital can be supplied from specialised funds which raise money from a range of sources: private individuals, corporations, government agencies, pension funds, banks, insurance companies, endowments and foundations. See Baygan and Freudenberg (2000).
 70. Law 2843/2000, further amended by Law 2992/2002.

ANNEX 1.A1. NETWORK INDUSTRIES

Energy sector

Electricity sector

1. The electricity market was partly privatised in February 2001,⁷¹ in accordance with the relevant EU Directive. As an important development, a new law was voted in July 2003 (Law 3175/2003) which amends Law 2773/99 on the electricity market. The new provisions aim at adapting the national market to the new institutional framework for the internal electricity and gas market (following the adoption of relevant EU directives), and increasing competition (See Box 1.A1.1). Meanwhile, steps were taken in the field of renewable energy sources (RES), which constitutes a noticeable broadening of the power generation basis in Greece. These aimed at reducing the bureaucratic hurdles regarding the licensing of RES and modernising procedures for environmental licensing. At present, efforts are directed towards the preparation of policy measures aiming at enhancing the competition in energy sector.⁷²

Box 1.A1.1. New provisions for the energy market

The main amendments introduced by Law 3175/2003 include:

- The establishment of an Organised Daily Electricity Market, from which supplies and eligible customers are obliged to purchase electricity. The Transmission System Operator (HTSO) will manage the market, as well as load distribution in real time, and operate existing interconnections.
- Elimination of the mandatory identification between producer and supplier.
- The development of a Power Availability Contract mechanism, supervised by HTSO.
- The definition of all non-household customers as eligible customers as by 1 July 2004 (all customers by 1 July 2007), in accordance with the new package of Community Directives for internal market.
- Freedom for all electricity producers to sign contracts with natural gas suppliers or importers of their choice, as from 1 January 2005. At the same time, DEPA is obliged to provide access to the system of transfer, storage and consideration of third parties according to published price lists.

Source: Ministry of Economy and Finance (2003), "National Report of Structural Reforms", Athens.

Gas Sector

2. Negotiations with Spain's Gas Natural for the sale of a 35% stake in DEPA, as well as its management, are at an advanced stage. Hellenic Petroleum owns 35% of the shares in DEPA. Regarding the further expansion of the low-pressure distribution network, DEPA is currently targeting the establishment, jointly with private investors, of three new regional Gas Supply Companies (EPAs), which will be activated within Eastern Macedonia and Thrace, Central Macedonia, and Central Mainland Greece

(including Evia).⁷³ Ongoing efforts aim at encouraging the use of natural gas by both households and industrial consumers. To achieve this objective, an amendment was submitted to Parliament for the mandatory use of natural gas in public buildings in Athens and Thessaloniki and changing house building regulations so as to facilitate the introduction of natural gas in the urban areas.⁷⁴ Fast progress towards the development of gas industry at the regional level is crucial to speeding up the introduction of natural gas. Allowing greater involvement of the private sector in low-pressure gas distribution, through majority stakes in EPAs, would encourage entry in the sector. Regulatory arrangements are also crucial to the development of the gas market.

Oil sector

3. In mid-2003, the government as a majority shareholder of Hellenic Petroleum (HP) -- possessing 58.2% of the share capital⁷⁵ -- announced the sale of a 16.7% stake to privately-owned Petrola (the second largest refiner in the Greek market), and the merger of the two companies through the absorption of the latter. Following the transaction, Petrola owns 25% of HP and the joint group, currently, controls approximately 80% of the refining market, with the remainder managed by Motor Oil Company S.A. By law, direct state ownership cannot be less than 35%. The agreement reached between the two companies provides that the state retains control of the management of Hellenic Petroleum, which operates in all parts of the oil sector: refining, marketing, and retailing.⁷⁶ It remains to be seen in practice whether the merger will translate into benefits for consumers, in terms of better services and/or lower prices. In any event, for these gains to materialise given the current structure of the market, competition at the distribution level needs to be strengthened drastically. Alternatively, competition could be boosted through the entry of more players at the refining level. Until recently, retailers were banned from direct access to refiners or from importing petroleum products directly (being required, instead, to buy fuel through trading companies).⁷⁷

Telecommunications⁷⁸

4. An important step taken towards warranting an effective interconnection regime was the cost orientation of major telecommunication services (voice telephony, leased lines, and unbundled access to the local loop (LLU) and interconnection) -- both in the wholesale and the retail market -- stipulated by the *Regulation on Costing and Pricing Principles* issued by the National Commission for Telecommunications and Post (EETT) in April 2001. According to the Regulation, the methodology implemented for determining cost oriented prices for voice telephony and leased lines is the Fully Distributed Cost (FDC) using historic or current cost, while the Long Run Average Incremental Cost (LRAIC) methodology using current cost is used for settling cost oriented prices for interconnection and LLU. Further progress towards accounting separation is nevertheless crucial for costing transparency and to deter potential anti-competitive practices.

5. Regarding broadband access, the prevailing means for offering broadband services in Greece is DSL, and particularly ADSL,⁷⁹ with the number of subscribers having reached 29 000 within one year from the launching of relevant services. In addition to offering broadband services, unbundling is a key factor for stimulating competition in the access market as it encourages new entrants to develop their own infrastructure, rather than depend indefinitely on that of the incumbent's. As noted earlier, LLU had a slow start in Greece, reflecting the lack of a clear strategy from the part of new operators, as well as the lengthy delays in the provision of LLU by OTE, the dominant telecom provider. Wide usage of broadband services will be a major driver for improving the penetration of Internet in Greece, which still falls below the OECD average, despite its rapid expansion in recent years.

6. As a positive development towards promoting effective competition in the narrowband market, Greece introduced -- in 2002, 2003, and 2004 respectively -- carrier selection, carrier pre-selection, and number portability. At the end of 2004, 12 operators offered public voice telephony through Carrier

Selection and 11 through Carrier Pre-Selection. From the introduction of Carrier Pre-Selection and until March 2004, 400 000 applications had been submitted to OTE, while the number of ported numbers had reached 17 300 at the end of 2004.

Transport

Sea transport

7. The domestic ferry sector in Greece was liberalised in November 2002 (Law 2932/2001) well before the expiration of the derogation period in early 2004⁸⁰ (See Box 1.A1.2). According to the new institutional framework, each year, ship-owners from member states of the European Union, the European Economic Area or the European Free Trade Area (except Switzerland) are called to freely engage their ships in lines of their own selection, provided they satisfy certain conditions -- including continuity (ships are obliged to serve one line for ten months, commencing on 1 November) and ability to provide transport services -- stipulated by the recent legislation.⁸¹ For those lines which are not been selected, public service contracts are conducted for a three-year period, in exchange for exclusivity. The selection is effected through a tender procedure ensuring the non-discriminatory participation of all interested ship-owners. Finally, following calls for the lowest bidders, public service assignment contracts for a one-year period are conducted for the lines for which -- following the steps described above -- the assurance of continuous and regular services was not possible.

Box 1.A1.2. New regulatory framework for the domestic ferry sector

The new law (Law 2932/2001), setting the framework for coastal shipping after Greece allows foreign competition on local routes from November 1, 2002, aims to create transparent and non-discriminatory competition and protect public interest in the domestic ferry sector. Under the provisions of the law, the Ministry of Mercantile Marine and the Aegean Ministry are the supreme supervisors of the domestic ferry sectors. The former has the authority to impose on the ship-owners obligations of public services in relation to ports served, regularity, continuity, frequency, capacity to provide transport services, freight rates and manning. For routes of diminished business interest, a Europe-wide tender for a contract to provide service will be issued. These routes are subsidised through a Special Internal Transport Fund, funded by the shippers and passengers, through a three per cent surcharge on all domestic fares. Entry in the market is free under certain conditions regarding continuity, ports, and the ability to provide services and manning issues. The upper age limit on vessels after 2005 will gradually be reduced from 35 years to 30 years by 2008. The law set up a Coastal Shipping Transport Council, a body with numerous representatives from social partners who help shaping coastal shipping policy in Greece.

8. The 2001 law goes a long way towards full harmonisation to EU directives.⁸² Prior to its enactment, the ferry transport market was highly regulated by the state, particularly the Ministry of Mercantile Marine, in such areas as market entry, licensing, pricing, route scheduling, public service obligations, tendering for unprofitable routes. The 2001 legislation paves the way for more competition and modernisation in the domestic ferry sector. It entails the ending of licensing procedures and the establishment of a new system of contracts for the delegation of public service. Competition would further be enhanced by eliminating administrative controls of tourist-class fares, although such controls are in accordance with the Community guidelines, and justified largely by the extended dependence of islanders (representing 14% of total population) on maritime transport. The independent Competition Committee is the authority to supervise the sea transport sector on matters related to safeguarding free and fair competition rules. Effective regulation is essential to ensure the creation of transparent and non-discriminatory competition in the ferry industry, and to safeguard consumer welfare.

ANNEX 2.A2. FINANCIAL MARKETS

Financial markets

1. The liberalisation of financial markets since the 1990s has progressively removed the constraints on Greek financial intermediaries for lending to the private sector. The state withdrew gradually from commercial banking through privatisation of state-owned banks, reducing the number of directly and indirectly state-controlled banks from ten in 1995 to three in 2004. Nevertheless, the government still controls directly or indirectly about half of the banking sector's assets, down from some 70% in 1995. Although there was some slowing in the privatisation in recent years due to stock market weakness and political resistance, the policy stance is nevertheless towards continued privatisation. The transformation of the capital market continued in recent years, establishing three new exchanges: the Athens Derivatives Exchange, the new market for small and innovative firms, and the exchange for emerging markets. At the same time, the new electronic trading system in the Athens Stock Exchange expanded the possibilities for efficient and transparent transactions.

The banking sector is in good shape ...

2. Now operating in a much more competitive environment, especially after Greece's entry into the euro area, the banking sector has made considerable efforts to restructure and catch up with other more developed EU banking systems. In recent years, the banks broadened the range of their products and services further and expanded their retail banking operations (especially consumer and residential mortgage credit). This has led to intensified competition among financial intermediaries -- also from other European banks -- underpinning both an increase in the number of bank branches and a decline in banking fees and commissions. Greece's large banks pursued the expansion of their activities to the Balkans and the broader region of south-eastern Europe through acquisitions and the establishment of branches. Consolidation in the domestic banking sector continued, albeit at a slower pace, through a number of major mergers, acquisitions and strategic alliances.⁸³ As a consequence, the share of assets held by the five largest banks in the banking sector's total assets rose from 58% in 1995 to 65.3% at the end of 2003.

3. As an indicator of rising competitive pressures, the spread between lending and deposit rates declined a cumulated 3½ percentage points between end-1998 and end-2004, according to estimates by the Bank of Greece.⁸⁴ The decline was driven by the general convergence of Greek bank lending interest rates to Euro area averages. For example the Greece-EU lending rate differential for short-term credit to the private sector narrowed from nearly 6 percentage points in 2000 to less than 1 percentage point in 2004, and for fixed-rate housing loans Greek lending rates were even temporarily lower than in the Euro area. However, average spreads between lending and deposit interest rates are still higher than in other EU countries. In part, this reflects higher risk premia associated with particular categories of credit, such as consumer lending. It may also reflect the fact that competition in some market segments remains somewhat less intense than in more mature markets abroad. The deposit-lending spread should narrow further once the Bank Information Systems Teiresias S.A. is fully operational. It will allow better monitoring of household debt and is expected by the Bank of Greece to allow banks to reduce, at least for prime borrowers, lending rates on consumer loans that normally embody higher risk premia and, consequently, have wider spreads.

4. Rapid credit expansion, especially in retail banking, where profit margins are comparatively high, has offset much of the effect of narrowing interest margins on bank profitability. As a result, bank net interest income has improved in 2003 and is estimated to held up well in 2004. Non-interest income has weakened substantially since 2000, largely owing to a sharp decrease in income from shares and equity holding; a mild recovery from a low level was recorded in 2003 and 2004 because of an increase in income from participations and variable yield securities. Operating expenses of Greek banks as a percentage of their total balance sheet declined somewhat, reflecting restructuring measures. However, personnel expenditures remained higher than in other OECD countries, in spite of Greece's lower average cost per employee.⁸⁵ Altogether, banks' net income and pre-tax profitability are estimated to have recovered in 2003 and 2004 from their sharp drop in 2002, suggesting that the banking sector is in good shape (Table A2.1).

... but non-performing loans remain a problem

5. Although the share of non-performing loans is on a declining trend (Table 2.A2.1), the level of bad loans is still relatively high. The problem is accentuated by Greece's protracted bankruptcy procedures which delay the seizure of assets. With credit expansion remaining strong, concerns were voiced about the additional credit risks assumed by banks, especially with regard to the rapid increase in non-performing housing loans. This is reflected in an increase in the ratio of credit-risk-weighted assets to total assets to above 50% in recent years, which signals an increase in banks' overall credit risk. Moreover, the weak stock market has reduced the value of collateral in the form of shares. Given that provisions for non-performing loans are significantly lower than the EU average,⁸⁶ the Bank of Greece raised in 2003 the minimum loan-loss provisioning requirements for certain categories of non-performing assets, as well as for fast-growing loan categories that entail a higher probability of borrower default.⁸⁷ Nevertheless, the ratio of provisions to total non-performing loans seems to have declined somewhat in 2003, before it picked up again in 2004, following strong increases in previous years.

Table A2.1. International comparison of bank profitability¹

As a per cent of average balance sheet total

	Greece					Austria	Finland	France	Germany	Italy	Netherlands	Portugal	Spain
	1997	2000	2001	2002	2003 ²								
Net -interest income	2.25	2.60	2.41	2.42	2.71	1.2	1.7	1.0	1.3	2.6	1.5	1.9	2.4
Non-interest income (net)	2.21	2.13	1.67	0.89	0.85	1.2	3.1	1.7	0.7	1.1	1.2	0.8	0.9
Gross income	4.46	4.73	4.08	3.32	3.57	2.5	4.8	2.6	2.0	3.7	2.7	2.7	3.4
Operating expenses	2.82	2.50	2.35	2.27	2.17	1.7	1.8	1.6	1.4	2.0	1.9	1.5	1.9
of which: Staff costs	1.87	1.50	1.41	1.34	1.32	0.8	0.7	0.6 ³	0.7	1.1	1.1	0.7	1.1
Net income	1.64	2.22	1.73	1.04	1.40	0.8	3.0	1.0	0.6	1.7	0.8	1.1	1.5
Provisions (net)	0.65	0.39	0.34	0.39	0.46	0.2	0.1	0.3	0.4	0.7	0.2	0.4	0.6
Profit before tax	0.99	1.84	1.39	0.66	0.94	0.6	2.9	0.7	0.2	1.0	0.6	0.8	0.9
Inhabitants per bank branch	4 055 ⁴	3 634 ⁴	3 490 ⁴	3 356 ⁴	n.a.	1 789	4 047	2 288	2 183	1 960	2 669 ⁵	2 145	1 041
Number of employees per branch	22 ⁴	20 ⁴	19 ⁴	19 ⁴	n.a.	15	30	21	19	12	26 ⁵	11	8

1. Commercial banks for Greece and Portugal.

2. Provisional estimates on 9-months data.

3. 1999

4. Data cover the entire banking system.

5. 2000

Source: Bank of Greece; OECD, Bank Profitability-Financial Statements of Banks (2002).

Table 2.A2.2. Capital adequacy and provisions of commercial banks

In per cent

	1997 ²	1998 ²	1999 ²	2000 ²	2001 ²	2002 ²	2003 ²	9M2004 ²
Capital adequacy ratio (consolidated basis)	10.3	10.2	16.2	13.6	12.5	10.6	12.0	11.9
Tier 1 capital adequacy ratio	9.4	9.7	15.3	13.5	10.9	8.7	9.8	9.3
Average in the rest of the euro area ¹	7.4	7.6	7.8	7.6	7.7	7.9	7.7	7.7
Non-performing loan ratio (excluding the agricultural Bank of Greece) ³	11.1	8.7	11.2	7.2	5.6	5.5	5.1	5.2
Non-performing loan ratio (including the agricultural Bank of Greece) ³	16.5	13.6	15.9	9.9	8.2	7.3	7.0	7.1
Provisions/non-performing loans (excluding the Agricultural Bank of Greece) ³	32.9	43.0	36.7	41.8	52.4	52.3	57.7	59.0
Provisions/non-performing loans (including the agricultural Bank of Greece) ³	19.0	24.1	27.7	40.7	45.7	46.9	49.9	50.7

1. Unweighted average (the 50 largest EU banks).

2. Revised data are indicated in bold.

3. The ratios do not include the rescheduled loans.

Source: Bank of Greece; Moody's; and OECD.

6. Declining profitability and the difficulty of raising new equity capital in a subdued stock market caused the capital adequacy ratio (the ratio of regulatory capital to risk weighted assets) of Greek commercial banks to trend downward from 12.4% in 1999 to 10.5% in 2002. Capital adequacy improved again in 2003 and 2004, to a ratio of around 12%, and thus remained well above the regulatory minimum of 8%. However, the share of banks with a core capital adequacy ratio of below 9% rose from a little above 1% in 2001 to about 10% at end-2003.

7. Against this background, the provisions on capital adequacy were amended by the Bank of Greece in 2002⁸⁸ *inter alia* to give credit institutions the option to use -- under strict conditions -- internal ratings-based models for the estimation of minimum capital requirements against market risk. This should enable them to use their own funds more efficiently. Credit institutions are now also required to report capital adequacy data more frequently, *i.e.* on a quarterly basis, to the Bank of Greece. Moreover, detailed disclosure of information requirements on banks *vis-à-vis* their retail customers were introduced, aiming at enhancing transparency on conditions under which banking services and products are offered and bank charges in particular.⁸⁹

8. The provisioning for non-performing loans and the adequacy of capital are the main challenges facing the financial sector, in particular with regard to the event of a possible future economic slowdown. Market discipline should be strengthened by increased disclosure of asset quality and other risk indicators, which until recently, was less developed than in other OECD countries. However, the adoption of International Accounting Standards (IAS), which will become mandatory as from financial year 2005 for all publicly traded companies, will ensure a more accurate picture of the financial position and performance of firms, a higher degree of transparency and comparability in financial reporting, and improved quality of information available to market participants and other parties concerned.

NOTES

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71. Following the 1999 Electricity Market Law, around 34% of consumers with 100 GWh or more of annual consumption became eligible to choose their supplier on 19 February 2001, slightly exceeding the threshold of 30% of the market set by the EU Electricity Directive. The following step defined by the directive was opening the market to 35% in total by February 2003, with its full opening envisaged for 2005 (OECD, 2002b).
72. Such measures include the construction of new electricity production units, and the expansion and improvement of the national transmission electricity system, especially in areas where renewable energy production units are located (National submission).
73. These follow the creation of equivalent gas supply companies for the geographical areas of Attiki, Thessaloniki and Thessaly. Under the 1995 natural gas law, private sector entities are expected to incur all the building cost (net of EU contributions) of the low-pressure distribution network in exchange for a 49% ownership stake and the management of Gas Supply Companies, which are majority-owned by DEPA's distribution subsidiaries.
74. See Ministry of Economy and Finance (2003).
75. The remaining percentage of the company shares has already been privatised through listing on the exchange and the sale of convertible bonds.
76. In August 2004, 8.2% of HP shareholders equity was sold to Paneuropean S.A., which is the company's strategic partner since June 2003, without rights of management (National submission).
77. Direct access to refiners and imports had been permitted for only four final consumers: the Greek Army, the Public Power Corporation, Olympic Airways, and Hellas Aluminium.
78. Input provided by the Greek authorities.
79. Broadband access is implemented by a number of different ways in Greece, including both wireless (Fixed Wireless Access, UMTS, Wi-Fi, satellite communications) and wireline (DSL, LLU, leased lines) technologies.
80. The European Union Regulation 3577/92 on maritime cabotage, also governing the Greek domestic ferries sector, removed cabotage restrictions for EU Member States for any ship flying the flag of an EU Member State, (OECD, 2001*b*). The provisions of this regulation apply, for the case of Greece, as from 1st January 2004.
81. Under the current provisions, interested shipowners submit a 'scheduling declaration' to the Ministries of Mercantile Marine and Aegean until 31 January, defining the line or lines to be served, the departure, arrival and calling ports, timetable of the itineraries and the maximum rates of the services. The declaration

needs to be accompanied by a deposit calculated on the passenger capacity and tonnage of the vessel. The execution of the itineraries is compulsory, with any breach of the obligation resulting in the forfeiture of the guarantee (*The Maritime Advocate*, Issue 18, April 2002).

82. Amendments on Law 2932/2001 are being under consideration, taking into account the Commission's recommendations. Overall, the Commission acknowledged the importance of the action taken by Greece to reform its national legislation (National submission).
83. Major moves in banking consolidation since 2002 were the acquisition of the Hellenic Bank for Industrial Development by the Piraeus Bank; the take-over by the Aspis Bank of the ABN-AMRO's Greek retail business and branch network and the purchase of a 7% stake in Aspis Bank by ABN-AMRO; merger of the National Bank of Greece with two of its subsidiaries (the partly owned ETEBA -- National Investment Bank for Industrial Development -- and the fully owned National Bank of Greece --France); and as a first step in the process of its transformation into a commercial bank, the Postal Savings Bank's (PSB) acquisition of a 17.2% stake in the share capital of the Bank of Attica. The PSB, which was formerly operating as a public law entity and thus was exempted from banking law, became a Société Anonyme (limited liability company) and intends to seek a credit institution license from the Bank of Greece.
84. The abolition or reduction of certain taxes and levies also had contributed to the decline in the loan-deposit rate spread. Conversely, developments in the average loan interest rate are affected not only by changes in individual rates, but also by each loan category's share in total loans. The rapid growth of consumer loans results in an increase of their share and raises the average interest rate of all loans, given that consumer credit interest rates are among the highest (Bank of Greece, 2004).
85. In 2002, average cost per employee were about € 40 000 in Greece against € 67 000 in the EU. However, bank productivity as measured by gross income per employee also remains low. In 2001 (latest available data), it was € 117 000 in Greece compared with € 212 000 in the EU.
86. At the end of 2002, the ratio of provisions to non-performing loans was at some 45% in Greece against an EU average of 68%. However, the comparison is complicated by differences in the definition of non-performing loans across countries.
87. Bank of Greece Governor's Act 2513/2003.
88. Bank of Greece Governor's Act 2494/2002, in line with Directive 98/31/EC.
89. Bank of Greece Governor's Act 2501/2002.

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