

GREECE

The income gap vis-à-vis the best performing OECD economies has narrowed considerably over the past decade but labour utilisation and productivity gaps remain large. Although reform initiatives in recent years have aimed at enhancing competition in network industries, improving efficiency in higher education and reducing incentives for early retirement, important weaknesses still remain in the following areas.

Priorities supported by indicators

Reduce the implicit tax on continued work at older age

Financial disincentives to continue working at older ages are among the highest in the OECD, leading to a low employment rate among older cohorts. An important channel for early retirement is via special provisions for those in “arduous” occupations.

Actions taken: A pension reform was passed in 2008 aiming at the reduction of early retirement through the rationalisation of special retirement age limits (including for women with under-aged children) and a reduction of financial disincentives to continue work. In addition, the law provides new financial incentives for workers (including in the public sector) to continue to work for three years after the age of pension eligibility. Discussions on limiting the occupations benefiting from the arduous-work clause are underway.

Recommendations: Pension reform needs to proceed further, including a change in entitlement ages and accrual rates of the system. The categories benefiting from the arduous-work clause should be defined more narrowly. Access to disability pension should be strictly enforced on medical criteria, judged by independent doctors.

Reduce barriers to entry in network industries

Competition in the network industries remains weak, holding back productivity performance. The ownership stake of the government in key public utilities remains high, and price and non-price regulation is pervasive, hampering the emergence of genuine competition.

Actions taken: The state’s stake in the Hellenic Telecommunications Organisation was reduced. Supervisory interventions to ensure competition in the telecommunication market have been intensified.

Recommendations: Privatisation should proceed, in particular in the energy and transport sectors as soon as financial markets stabilise. The unbundling of the local loop in telecommunications should be speeded up. The operations (generation, transmission and distribution) of the partially state-owned incumbent in the electricity sector should be unbundled. Price restrictions and barriers to entry in the road freight sector should be lifted.

Reduce the tax wedge on labour income

A high tax wedge on labour income hampers employment creation, and encourages tax evasion and informal activities.

Actions taken: Personal income taxes have been reduced, accompanied by measures to curtail tax and social security evasion. Evasion should also be curtailed by the creation of a unique employment and social security identification number for all citizens introduced by the 2008 pension reform.

Recommendations: Reduce tax wedges over the medium term, financed by cutting public spending, particularly for public administration which absorbs a relatively high share of government outlays, with no evidence that the services delivered are superior. Continue efforts to combat tax evasion.

Other key priorities

- **Formal education.** Raise the quality of formal education through improvements in teaching quality and advanced technology at schools. Address the school-dropout problem and facilitate the school-to-work transition through more flexible curricula. Implement rigorously the recent reforms of the higher education sector, and follow up with more decisive changes, providing universities with greater autonomy and linking their funding to performance evaluations.
- **Minimum cost of labour.** Ease entry to the labour market by reducing the minimum cost of labour through the setting of sub-minimum wages that take into account high unemployment rates of youth, and the lowering of social security contributions for low-paid workers, financed by savings elsewhere in the budget, for example through a reduction of over-staffing in the public sector.

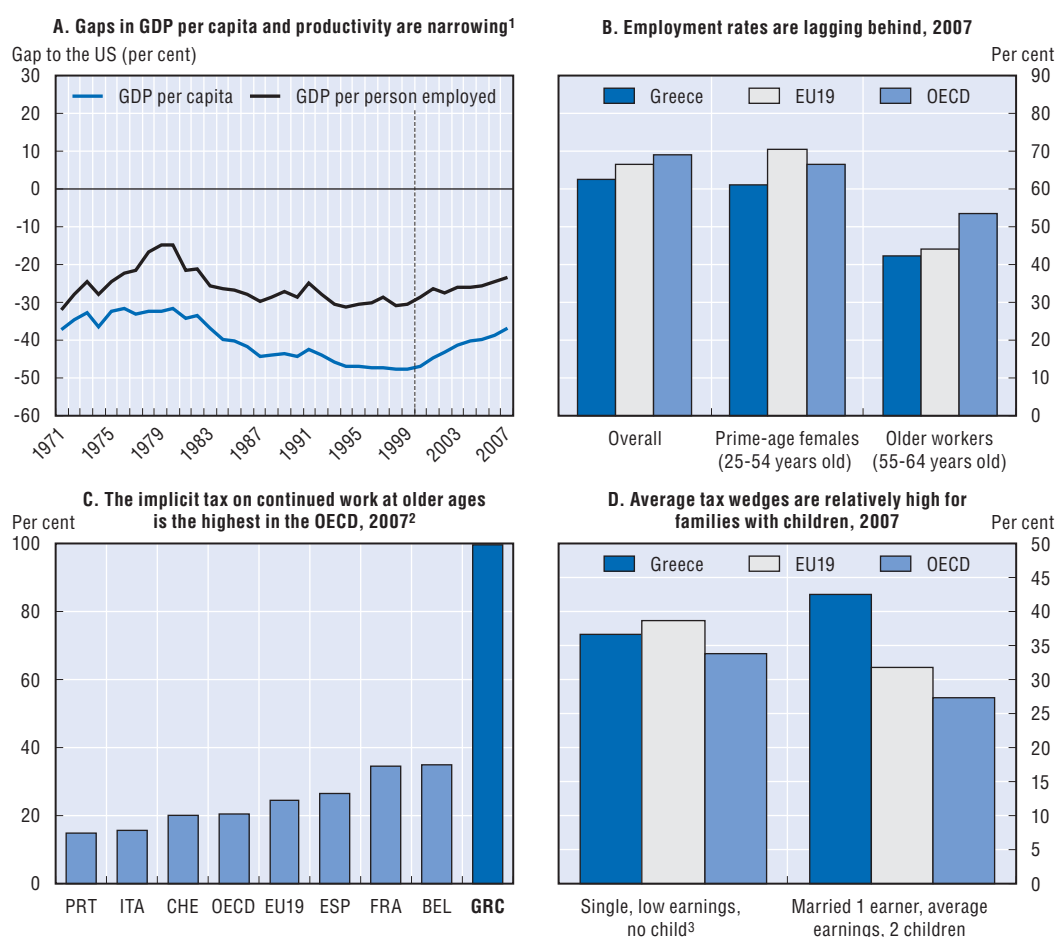
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Structural indicators

Average annual trend growth rates, per cent


	1997-2007	1997-2002	2002-2007
GDP per capita	3.4	3.4	3.5
Labour utilisation	0.3	0.1	0.4
of which: Employment rate	0.6	0.4	0.8
Average hours	-0.3	-0.3	-0.3
Labour productivity	3.2	3.3	3.1
of which: Capital intensity	1.5	1.7	1.4
Multifactor productivity	1.6	1.6	1.7

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.



1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs). Official data for the GDP level of Greece are only available from 2000 onwards. For the period before, these data were estimated using growth rates based on previous National Accounts data.
2. Implicit tax on continued work embedded in the regular old-age pension scheme for 60-year-olds.
3. Low earnings refer to two-thirds of average earnings.

Source: Chart A: OECD, *National Accounts Database*; Chart B: OECD, *Labour Force Statistics Database*; Chart C: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", *OECD Economics Department Working Papers*, No. 370 and OECD calculations; Chart D: OECD, *Taxing Wages Database*.

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