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The income gap vis-à-vis *the best performing countries, which had declined in recent years, is likely to increase again as a result of the major ongoing economic crisis. Structural reforms underway in the product and labour markets are vital to reducing the sizeable productivity shortfall and enhancing labour utilisation.*

Priorities supported by indicators

Reduce regulatory barriers to competition

Weak competition in network industries, along with heavy administrative burdens for starting a business and a strict regulation for professional services, reduce competition and hold back productivity performance.

Actions taken: A privatisation programme is underway entailing the sale of stakes in the railway company and the Post. Steps have been taken to liberalise the transport sector. Formalities for starting a business have been simplified.

Recommendations: The ownership stake of the government in key public utilities should be reduced and barriers to entrepreneurship lowered. The announced liberalisation of closed professions should proceed rapidly.

Pursue efforts to reduce the implicit tax on continued work

High financial disincentives to continue working at older ages keep the employment rate among older workers low. "Arduous" occupations represent an important pathway into early retirement.

Actions taken: A recent bill raises the statutory retirement age, raises the penalties for those retiring before 65, and reduces the generosity of pension benefits. The revised list of professions under arduous occupations will be fully implemented from July 2011. Access to minimum pensions has been limited to persons having reached the statutory retirement age. Actuarial studies are being conducted to assess the impact of pension reform.

Recommendations: Proceed with the full implementation of the pension bill. Ensure that parametric changes in the pension system are sufficient for its long-term sustainability.

Reduce the labour tax wedge and broaden the tax base

A high tax wedge on labour and tax exemptions encourage evasion and informal activities.

Actions taken: The recent reform of the tax system aims at broadening its base and cracking down on tax evasion, including through the introduction of presumptive taxation and harsher penalties for tax offenders.

Recommendations: Continue efforts to broaden the tax base and combat tax evasion. Consider reducing tax wedges over the medium term, once fiscal targets are achieved. Such a cut could be financed by cutting public spending, particularly for public administration which absorbs a relatively high share of government outlays.

Other key priorities

Improve the quality of primary and secondary education

Raise the quality of formal education through improvements in teaching quality and school curricula.

Actions taken: Announced reforms aim at improving the quality of the education system through a more comprehensive performance evaluation procedure for teachers.

Recommendations: Redesign school curriculum to improve literacy, numeracy, science and critical thinking skills. Improve the quality of teachers by making the profession more attractive and linking teacher evaluation to effective professional development. Increase the autonomy and accountability of schools.

Ease entry into the labour market

Relatively high minimum costs of labour and strict employment protection legislation affect adversely labour market entry, especially for youth.

Actions taken: A 2010 bill introduces sub-minimum wages to assist those aged 25 or younger to find a job, subsidising their social security contributions. It reduces dismissal costs for larger firms and it provides more flexible rules governing the settlement of severance payments.

Recommendations: Proceed with the full implementation of the new law. Severance costs for white-collar workers should be brought more in line with those incurred for blue-collar workers.

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Structural indicators

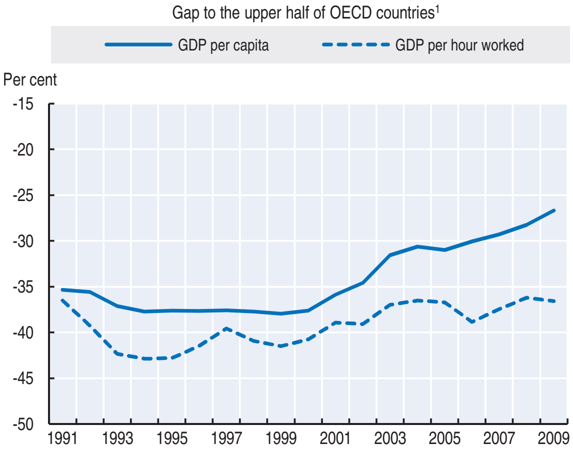
Average annual trend growth rates, per cent

		1999-2009	1999-2004	2004-09
GDP per capita		2.9	3.8	2.0
Labour utilisation		0.9	1.0	0.8
of which:	Employment rate	0.7	0.9	0.5
	Average hours	0.2	0.1	0.3
Labour productivity		2.0	2.8	1.2
of which:	Capital intensity	1.4	1.8	1.1
	Multifactor productivity	0.6	1.0	0.1

Source: Estimates based on OECD (2010), *OECD Economic Outlook* No. 88: *Statistics and Projections Database.*

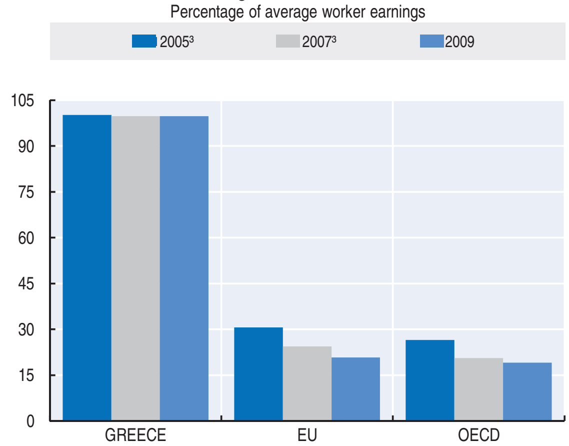
A. Gaps in GDP per capita and productivity had narrowed prior to the most recent crisis

Gap to the upper half of OECD countries[1]



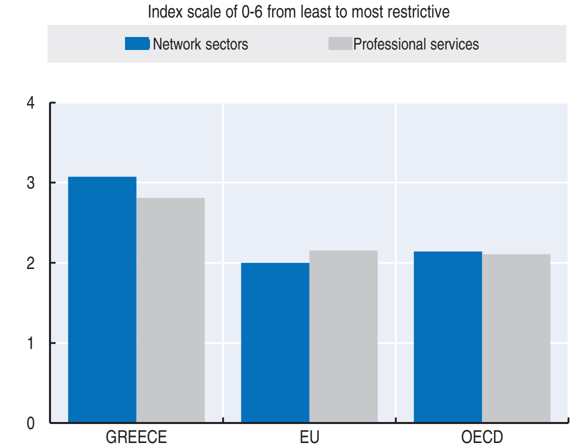
B. Implicit taxes on continued work at older ages are among the highest in the OECD[2]

Percentage of average worker earnings



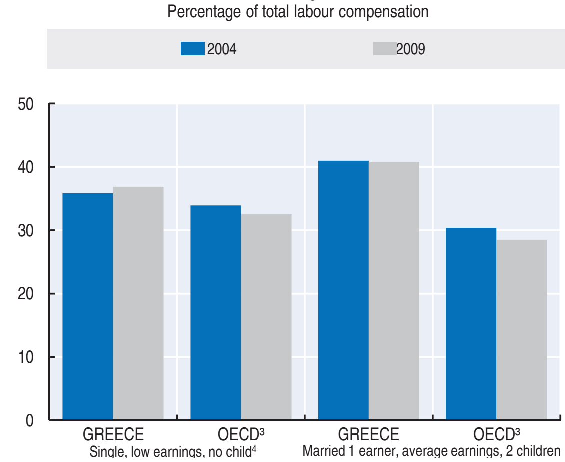
C. Regulation in network industries and professional services remains strict, 2008

Index scale of 0-6 from least to most restrictive



D. Tax wedges on labour income remain above the OECD average

Percentage of total labour compensation



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Implicit tax on continued work embedded in the regular old-age pension scheme for 60-year-olds.
3. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.
4. Low earnings refer to two-thirds of average earnings.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook* No. 88 *Databases*; Chart B: 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 C: OECD, *Product Market Regulation Database*; Chart D: OECD, *Taxing Wages Database*.

StatLink http://dx.doi.org/10.1787/888932373875