

Growth Plan for the Greek Economy

Summary of the final report

Sir Christopher Pissarides, LSE & University of Cyprus – Chair

Nikos Vettas, IOBE & Athens University of Economics and Business – Vice-Chair

Costas Meghir, Yale University

Dimitri Vayanos, LSE

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Performance of the Greek economy

- Low labor force participation rate and low levels of physical capital.
 - Labor (25th in the EU by % of the population that was employed or was seeking employment in 2019).
 - Capital (27th in the EU in business fixed investment as a % of GDP in 2019).
- Low productivity (22nd in the EU in labor productivity in 2017).
- Poor performance in innovation (20th in the EU in the European Innovation Scoreboard in 2020).
- Low trade intensity (23rd in the EU in imports + exports as a % of GDP in 2019).
- Weak social safety net (3rd in the EU in risk of poverty and social exclusion in 2018).
- Poor environmental performance (22nd in the EU in the circular management of materials index in 2017).

The proposals in the Report aim to improve these performance metrics with immediate and sustained effect over the next decade.

Exporting sectors

	Exports as a % of GDP, Greece, 2019	Exports as a % of GDP, EU-9, 2019
Total exports	37.2	65.5
Agricultural products, food and raw materials	4.4	6.4
Petroleum products	6.3	3.0
Industrial products	9.2	38.2
Transportation (mainly sea transport)	7.5	4.5
Tourism	7.8	4.0
Other services (health, education, IT etc.)	2.0	9.3

EU-9: EU countries comparable in terms of population to Greece: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Hungary, Netherlands, Sweden.

Significant shortfall in exports, particularly of industrial products.

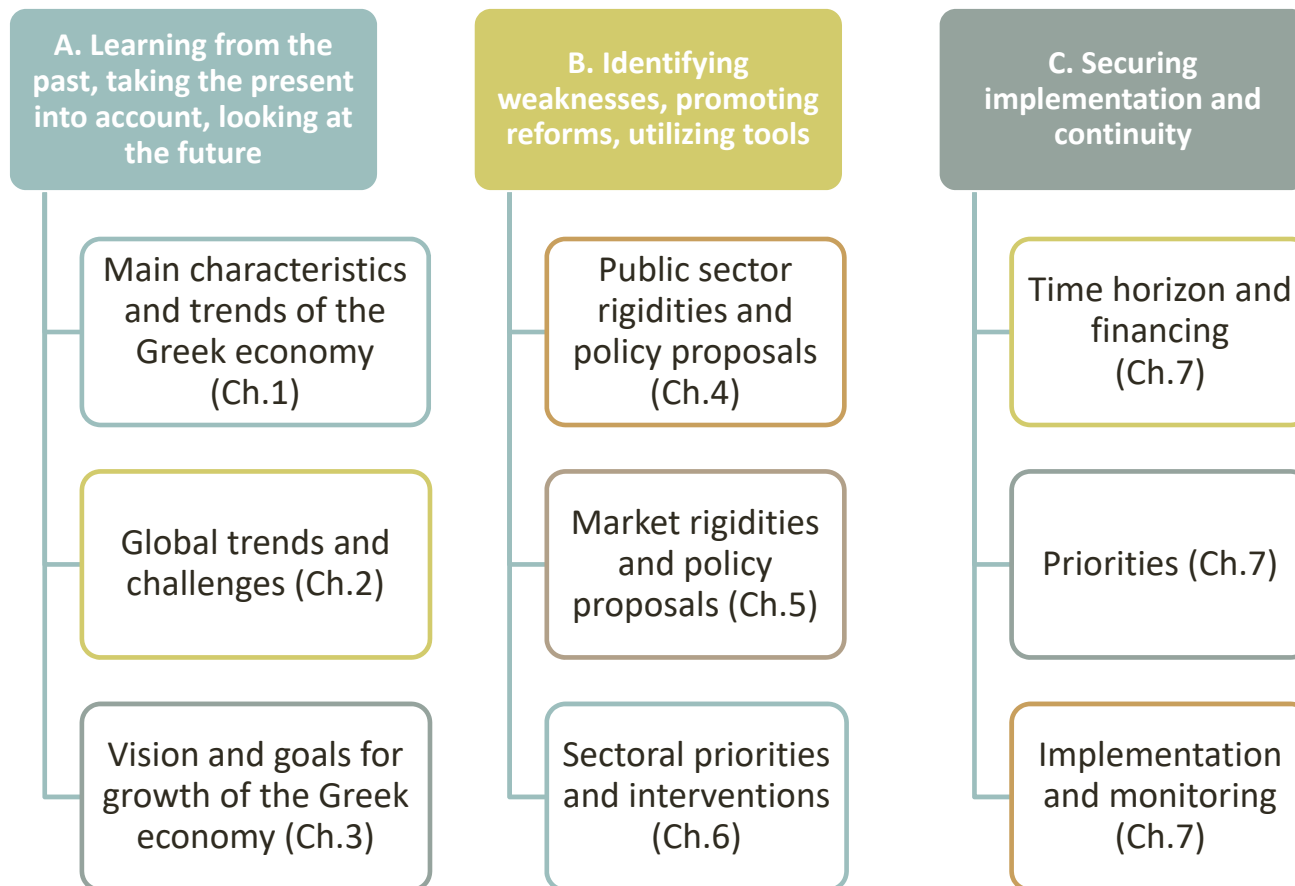
Main points of the plan (I)

- Sustainable **income** growth must be based on expansion of productivity and of labor force participation.
- To increase **productivity**, it is necessary to boost investment and improve the business environment.
- Structural changes in the tax and social security systems, targeted measures such as an upgrade of vocational education training, and changes to maternity and paternity leave and child care systems, will contribute to the increase of **labor force participation**.
- Reforms improving public sector efficiency and the functioning of markets contribute to **social cohesion** and help lower-income households. Improving opportunity for young people and women is particularly important.

Main points of the plan (II)

- Increasing productivity and exports reinforce each other. Given the small size of the domestic market, **openness** allows businesses to attain a larger efficient scale and a specialization level that leads to cost reductions and higher product quality. Specialization improves comparative advantage and leads to more exports.
- Increased openness is associated with increased **use of new technologies in production**, supported by measures to boost research and investment in innovation.
- The growth plan promotes both **environmental and digital upgrade**, directions consistent with the European Union's priorities that are very important for Greece.

Structure of the Growth Plan Report



Macroeconomic balance: 2020-2030

	2019	Status quo	Positive scenario
Real GDP growth (annual %, 2020-2030)	1.9	1.7	3.5
Employment growth (annual %, 2020-2030)		0.2	1.0
Labor productivity growth (annual %, 2020-2030)		1.5	2.5
Exports as a % of GDP (2030)	37.2	44.5	50.5
GDP per capita as a % of the EU average (2030)	67.0	68.0	81.0
Unemployment rate (% , 2030)	17.0	9.0	7.0

Positive scenario outcomes

Employment growth

- Reduction of unemployment: 17.2% → 7.0%
- Increase in the labor force participation rate: Women and age groups 20-24 and 55-64 → EU average
- Decrease of the working-age population by 7.5%.

Labor productivity growth

- Increase in Total Factor Productivity (TFP): 1% annually.
 - Achievable target – observed during the period 1995-2002.
- Increase of productive investments (public and private): 9.4% of GDP → 17.5% (EU-9 average).

Policy actions: Markets and production

1. Taxation: Reduce burden on salaried employment

- Reduce rates (beyond the first brackets – indicatively, abolition of the “solidarity levy”).
- Strengthen transparency in transactions via targeted incentives for the use of electronic payments.
- Integrate all types of income in a single tax schedule, regardless of the source (while avoiding double taxation).

2. Social security: Strengthen incentives for work and savings

- Reduce social security contributions (indicatively, via fixed health contributions) and the maximum insurable income
- Strengthen the proportionality of the public Pay-As-You-Go social security pillar. Strengthen the second and third social security pillars by expanding individual choices.
- Move from a Pay-As-You-Go to a fully-funded system of supplementary pensions, with immediate implementation for new entrants to the labor market and voluntary participation for the already employed.
- Supervisory framework for pension funds, including the public fund

3. Public administration: Improve governance

- Continue and deepen the efforts to evaluate and codify legislation.
- Strengthen the higher administrative positions in government agencies via increased tenure and mobility.
- Unify and harmonize HR practices across the entire public administration by upgrading ASEP to a HR directorate.
- Reduce formalism in employment procedures and implement performance evaluation across the board.
- Continue and deepen the digitization process.

Policy actions: Markets and production

4. Justice system: Shorten the litigation timeline

- Expand special sections in courts that deal with specific types of commercial disputes.
- Broaden and support out-of-court dispute resolution mechanisms.
- Support judges more systematically through hiring judicial assistants and introducing assistant judges.
- Improve the education, training, evaluation and promotion systems for judges.

5. Finance: Develop capital markets

- Strengthen financial regulation and supervision in the area of investor protection.
- Improve corporate governance and credit-market transparency.
- Set targets for faster reduction of non-performing loans held by banks.
- Emphasize effective implementation of the new bankruptcy code.
- Tax incentives for listing companies on the stock market and for long-term savings through that market.

6. Spatial planning: Determine land ownership and use

- Complete speedily the land registry, the forest maps, and the Local Spatial Plans that determine land uses.
- Reduce off-plan construction.
- More transparency regarding spatial and environmental data.
- Create an Independent Authority charged with the enforcement of Environmental Protection legislation.

7. Local government: Decentralize responsibilities and resources

- Transfer responsibilities to the local level for functions such as education and spatial planning.
- Merge and simplify all real estate taxes and transfer them partially to the local level.
- Transfer resources through transparent processes.

Policy actions: Social cohesion

8. Education: Modernize the system at all levels

- Develop pre-school education with universal access.
- Increase the average size of school units, anticipating future demographic developments. Improve digital infrastructure and content.
- Introduce substantial autonomy for educational units at all levels, accompanied by performance evaluation for teachers and educational units.
- Modernize governance in higher education, and develop links with the private sector, the Greek diaspora, foreign institutions and society.

9. Health: Restructure the system

- Develop a unified digital patient record system for transparency and efficiency.
- Improve primary care and prevention.
- Rationalize procurement expenditure, with increased volume of generic drugs, prescription protocols, and linking of rebates to innovation and investment.

Policy actions: Social cohesion

10. Training: Radical upgrade of the system

- Increase funding and improve incentives through a system that rewards providers based on the results of the training
- Restructure OAED with a shift towards active employment policies.

11. Labor force participation: Comprehensive inclusion of women

- Enforce strictly anti-discrimination laws.
- Develop a preschool education system with universal access from the age of 6 months.
- Introduce a funded care system for the elderly.

12. Social welfare: Improve the structure and targeting of benefits

- Improve the structure and targeting of benefits so that they do not act as a disincentive for work.
- Introduce specialized integration programs for people with disabilities.
- Introduce training and integration programs for immigrants.

Policy actions: Infrastructure

13. Planning and implementation of public works: Modernize the system

- Modernize the planning and implementation system for public works.
- Strengthen digital infrastructure by accelerating core investments and interconnection between public and private sectors.

14. Green growth: Energy transformation and circular economy

- Energy efficiency upgrade in buildings.
- Shift to renewable energy sources.
- Mitigate the cost of transition from coal.
- Develop circular economy and waste management systems.

15. Transportation: Create efficient freight routes

- Improve the rail and road access to Greece's international borders.
- Upgrade export ports and their interconnection with other transport infrastructure.
- Upgrade the central railway network.

Policy actions: Economic sectors

16. Manufacturing: Reduce production costs

- Accelerate tax depreciation for investment in equipment and R&D.
- Allow for greater flexibility on overtime.
- Reduce energy costs.
- Record systematically and remove barriers in sectors with high export potential.

17. Tourism: Improve the quality of services

- Strengthen basic infrastructure and digitize services.
- Improve education and training of employees.
- Improve international image and branding.
- Emphasize the protection and promotion of natural and cultural assets.

18. Agri-food: Expansion and modernization

- Enlarge and modernize farms.
- Improve education and training of farmers.
- Stronger contribution of technology and research, to increase the value added of products.

Policy actions: Sectors of economic activity

19. SMEs: Support programs with emphasis on innovation and openness

- Implement SME support programs, mainly in terms of access to finance.
- Support investments concerning digital upgrade, innovation, openness, social cohesion or environmental protection.

20. Research and innovation: Remove rigidities and increase spending

- Enhance core research at universities and research centers by removing rigidities.
- Create a stable core research funding agency with a long-term research strategy and transparent funding criteria.
- Enhance innovation capacity by providing incentives for business research in manufacturing, agri-food and elsewhere.
- Development via smart specialization.

Directions of fiscal policy

Credibility

- **Stable, but mild and realistic primary budget surpluses** over the long term, with some degree of flexibility.
- Mild declining trajectory of public debt over the medium term.

Consistency regarding the level of public expenditure and revenue

- **Grow at a lower rate than GDP** over the medium term, to reduce the Debt to GDP ratio.

Fiscal mix that supports growth

- **Expenditure:** Strengthen the Public Investment Program, especially for projects with high growth impact, in contrast with general operational and pension expenditure. Public sector recruitment priorities should be redefined.
- **Revenue:** Broaden the tax base so that the burden is more uniformly distributed, with targeted incentives for electronic payments. Lower tax burden on salaried employment.

Use of European recovery support measures

- Over the short term, any **fiscal space** should be used to generate high growth multiplier effects.

Prioritization: General principles

Capital → Products → Labor

- Interventions in the labor market are more effective if preceded by a reduction of entry barriers in product markets.
 - Finding a job is easier in a more dynamic economy (fewer barriers of entry).
- Reduction of the entry barriers in product markets is more effective if preceded by improvements in capital markets.
 - Expansion of production and entry of new businesses require easy access to financing.
- → Creating the right environment for new businesses and investments is a top priority.

Investment in physical and human capital

- Basis for future increases in productivity.
- Funding availability from European cohesion programs and the Recovery and Resilience Facility.

Reduce unemployment

- Growth and social cohesion.
- High level of unemployment is due to cyclical and structural reasons.

Prioritization: Actions

Production and investment

- Cut drastically labor income taxes and social contributions.
- Accelerate tax depreciation for investment in equipment and R&D.
- Energy efficiency upgrade of buildings.
- Investment in infrastructure, with a priority on freight transport and on transportation of residents and tourists through congested routes.
- Strengthen exporting manufacturing sectors.
- Waste management and circular economy.

Human capital

- New programs and facilities for training of employees and the unemployed.
- Organizational interventions in schools.
- Expand and improve pre-school education.
- Facilitate the integration of women in the labor market. Reform maternity and paternity leave.
- Improve institutional framework to incentivize cutting-edge research in universities and research centers that will support production clusters.

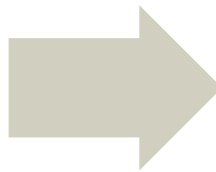
Public sector and administration

- Accelerate the digitization of public sector services.
- Enhance primary care and hospital units; emphasis on measuring and monitoring performance.
- Expand special sections in courts that deal with specific types of commercial disputes.
- Broaden and support out-of-court dispute resolution mechanisms.
- Strengthen financial regulations and supervision in the area of investor protection.

2020-2030: Two sub-periods

First half of the decade

- Significant growth potential from:
 - European and national public funds.
 - Investment in infrastructure.
 - Reforms for increasing productivity and labor force participation.
 - Leverage private funds (e.g. PPP, Development Bank).
 - Reduce unemployment and investment gap.



Second half of the decade

- Growth potential mainly from private funds.
 - Fewer European funds and increased public debt refinancing requirements.
 - Attract investment and human capital.
 - Critical to implement the further reforms listed in the Report, to build on the strengths of the economy of the first half of the decade.