

14th Annual Capital Link Forum- Positioning for the Rebound- Greece

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Shaping the Future: Economic Reforms, Competitiveness and Growth in Greece

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Structure of the presentation

1. The results of the adjustment process
2. The reform program: objectives and priorities
3. The impact on competitiveness
4. A strategy for growth

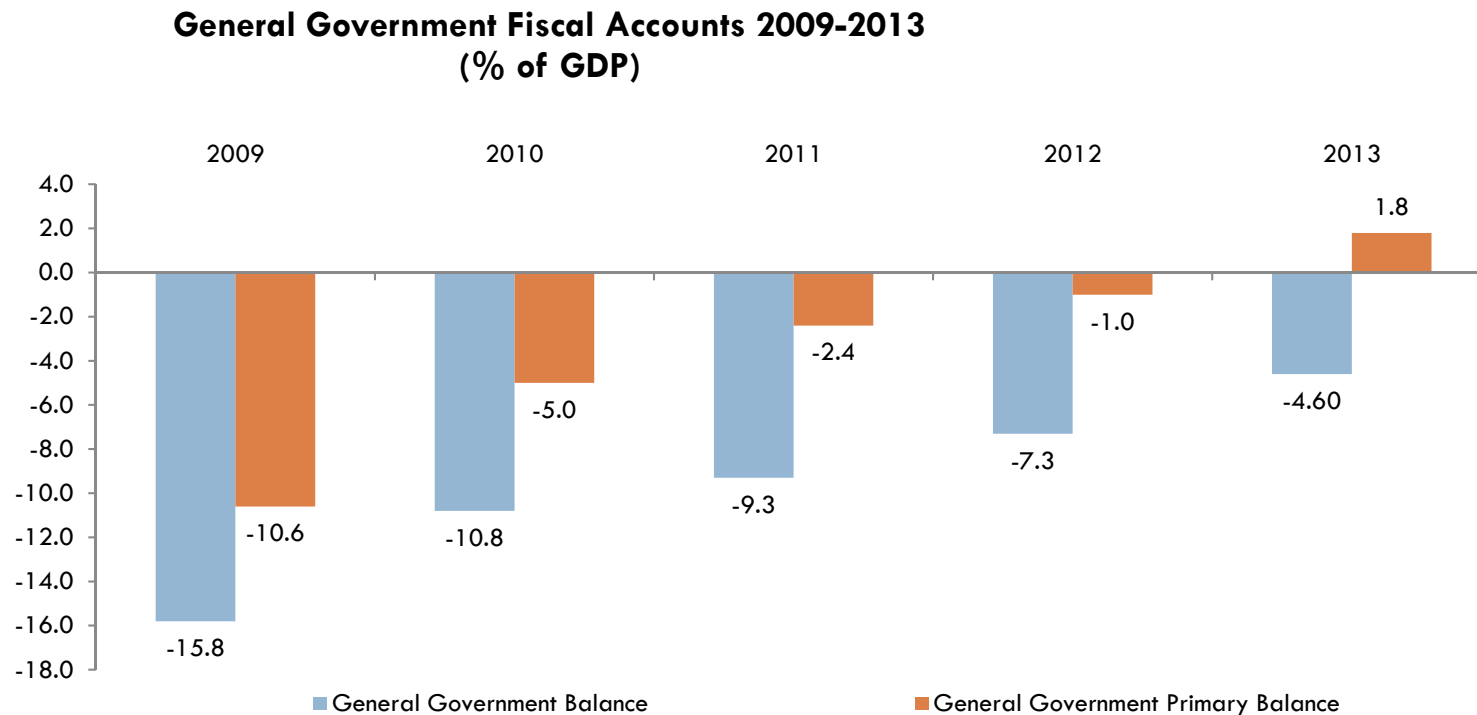


1. The adjustment results

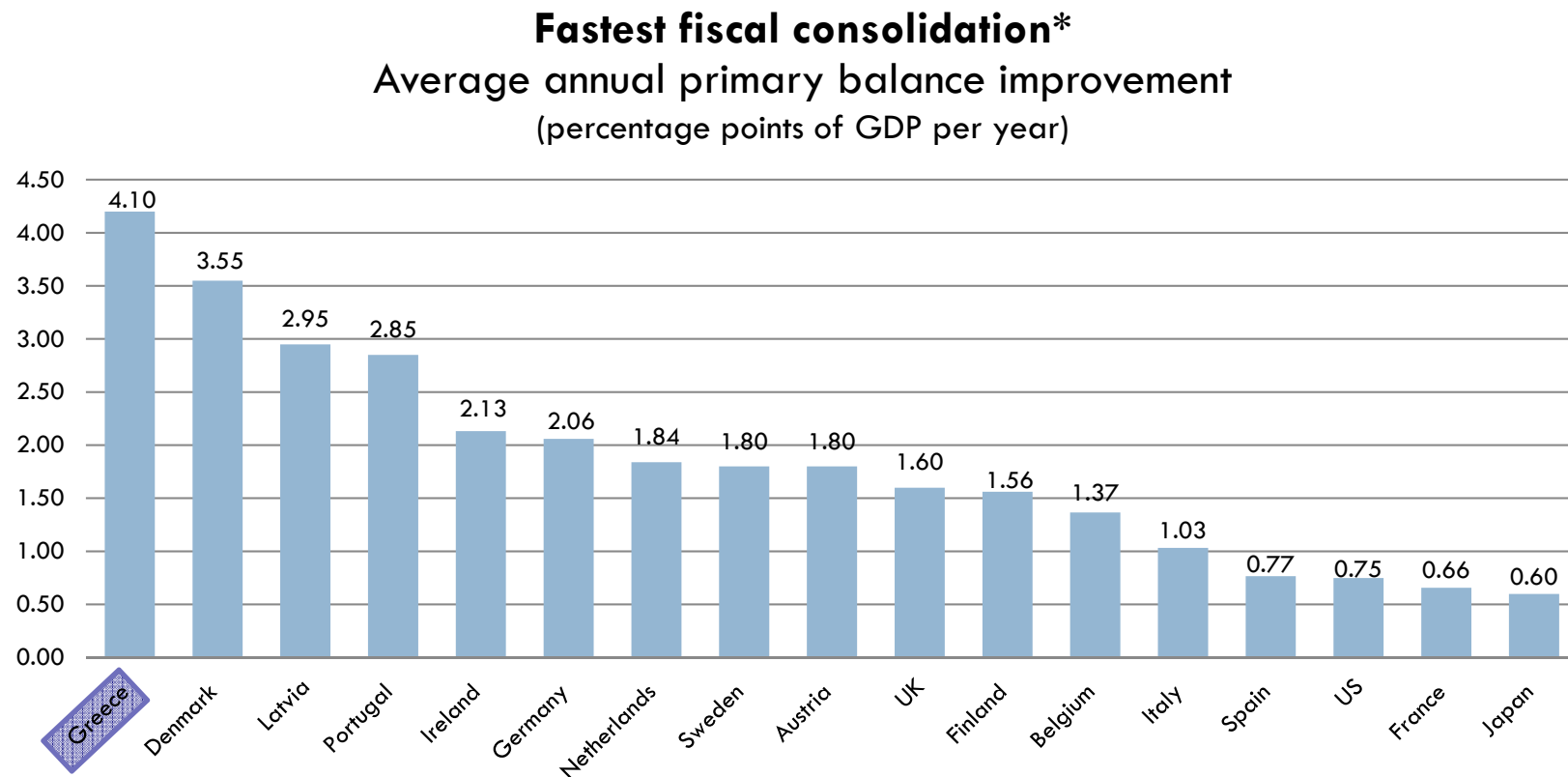
An enormous fiscal adjustment has been achieved

General government deficit shrank by 6.5 p.p of GDP

General government primary deficit shrank by 8.2 p.p of GDP



Greece has achieved the fastest fiscal consolidation

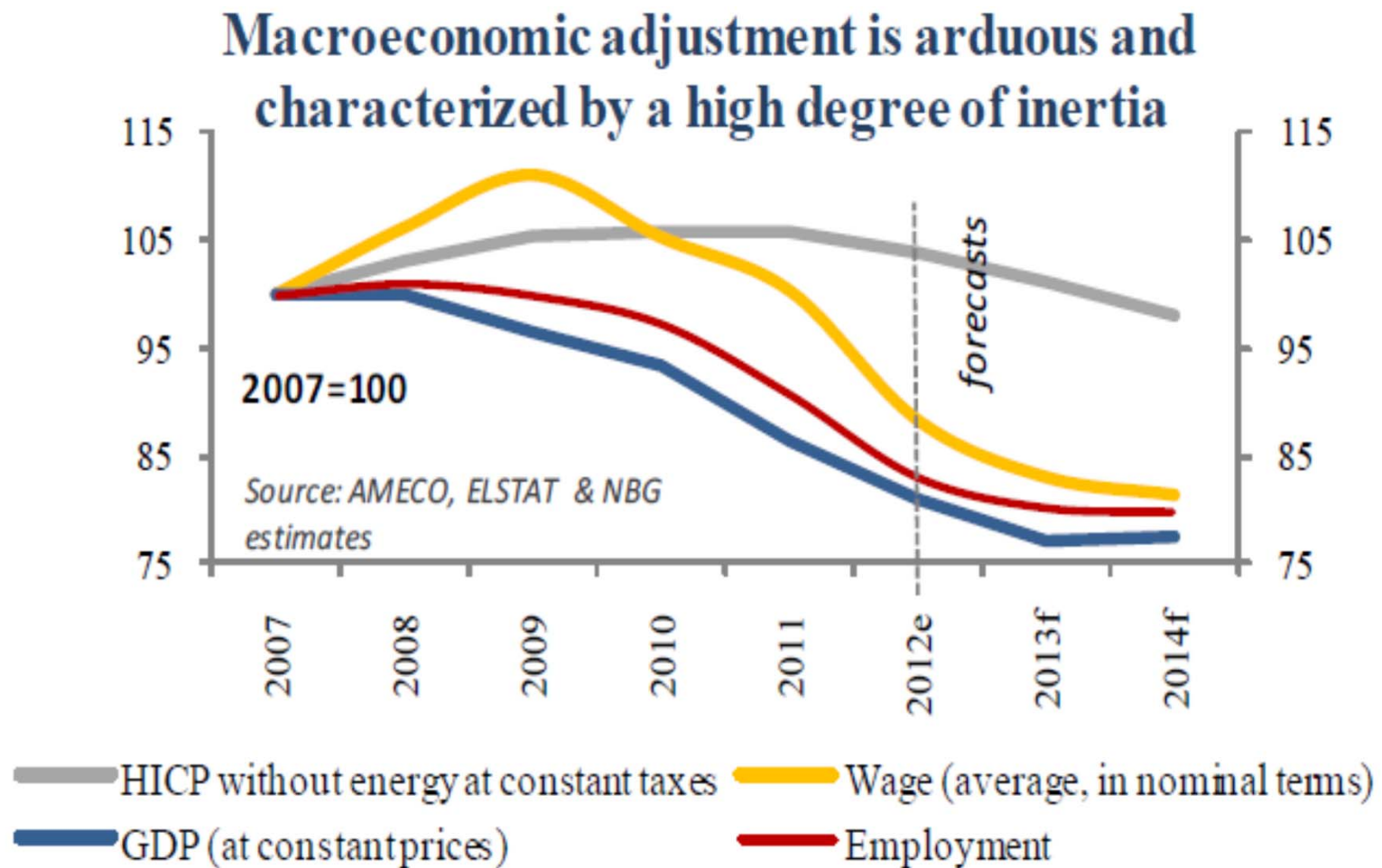


✓ Greece achieved an annual rate of fiscal consolidation of 4.1 percentage points of GDP on average, the highest in the developed world over the last few decades

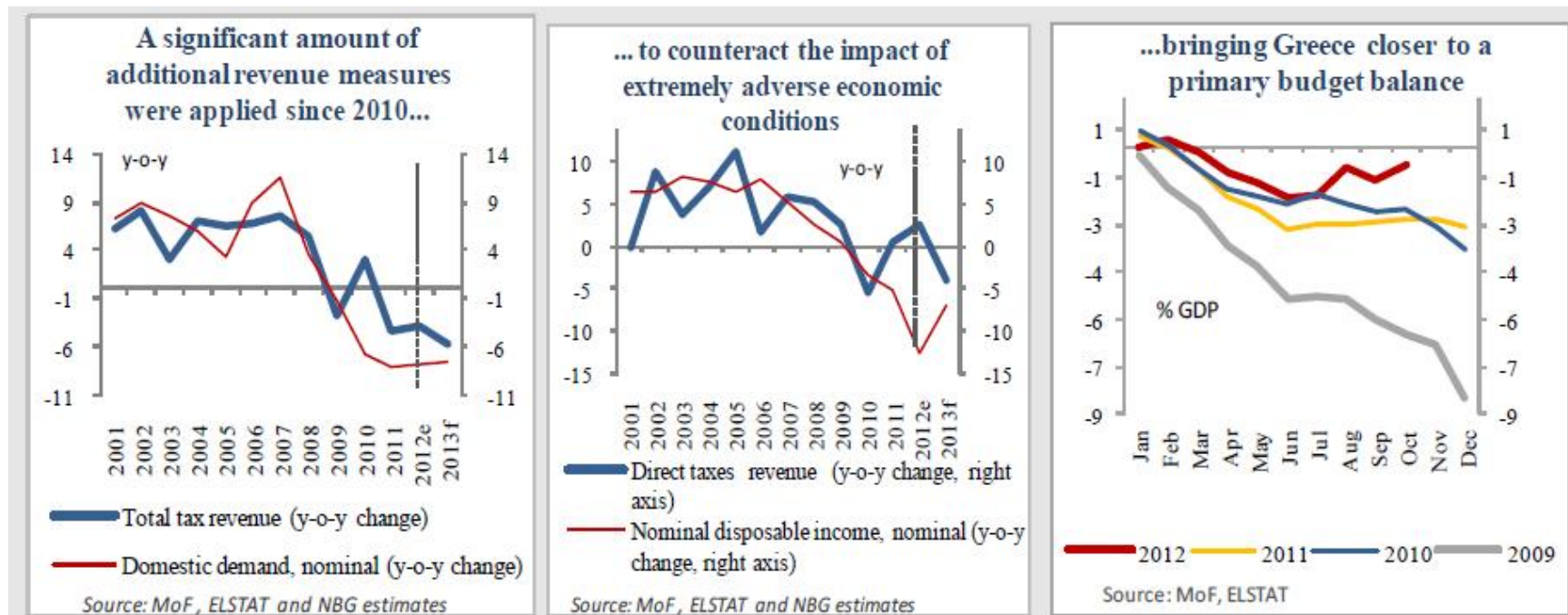
* Fiscal consolidation episodes as defined in OECD Economic Outlook 81, May 2007

Source: AMECO

Strong macroeconomic adjustment with about 25% cumulative decline in GDP since 2007

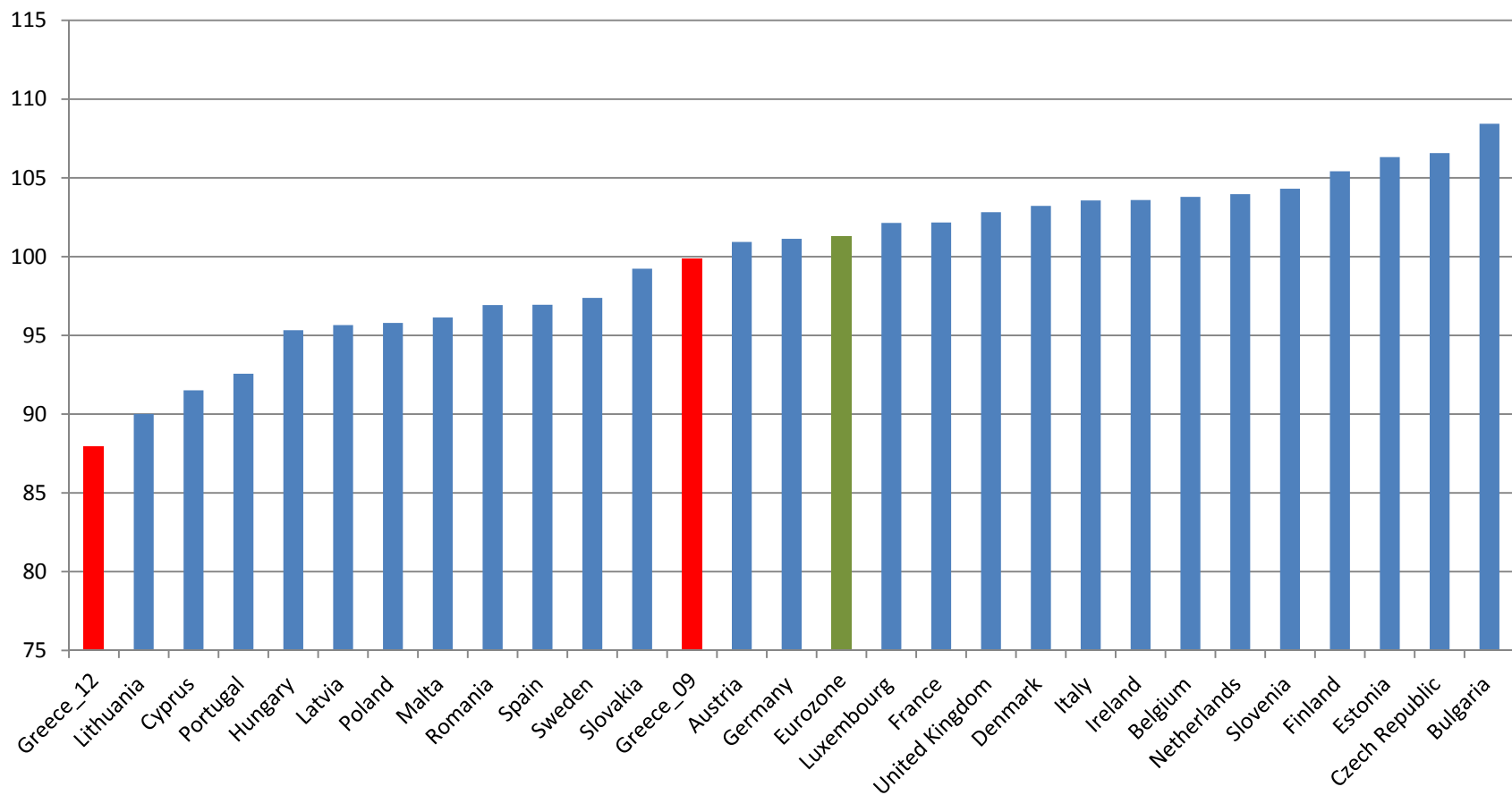


Fall on demand and disposable income... but close to achieving primary balance

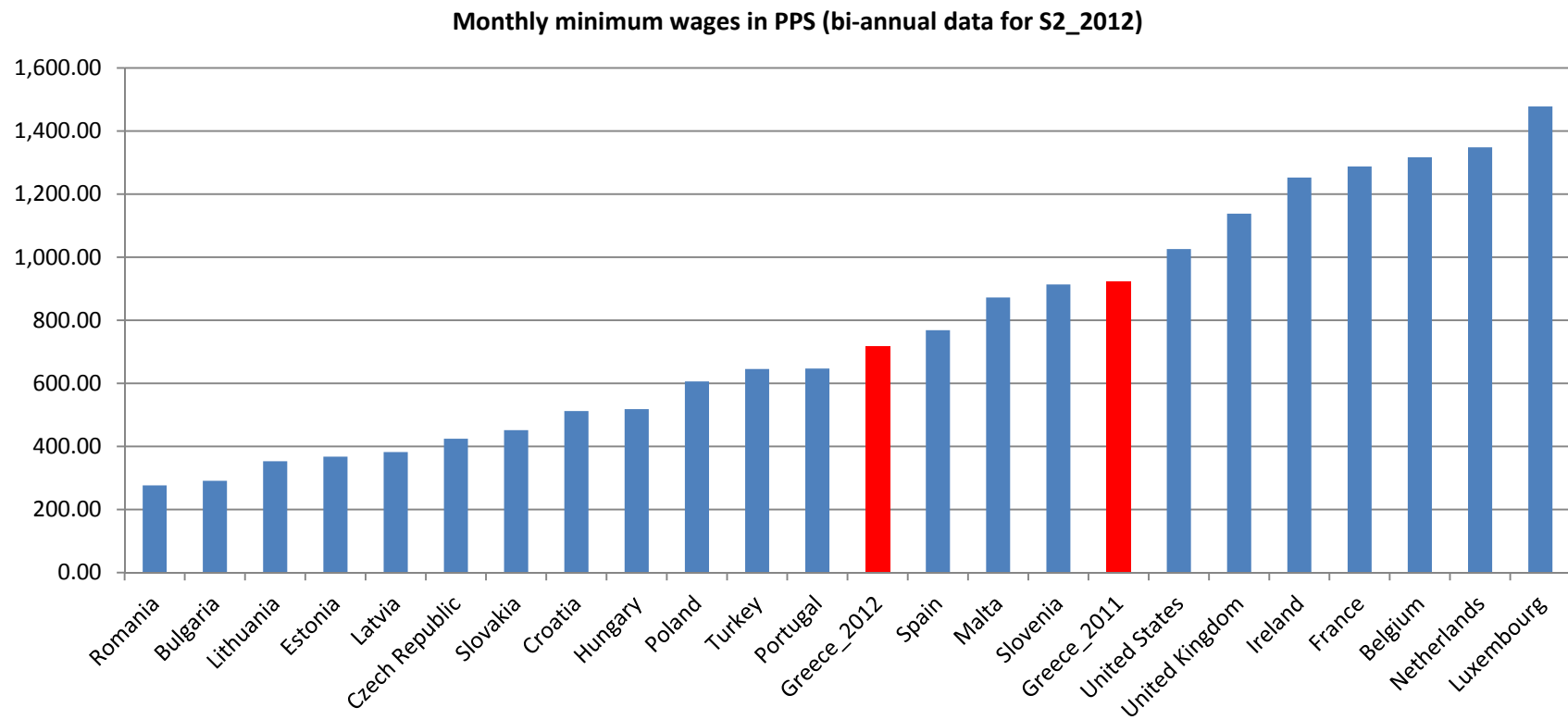


Lowest Real Unit Labor Costs within EU-member states in 2012

Real Unit Labor Costs - 2012 levels (Total Economy: 2005=1000)



But monthly minimum wages still high





2. The reform program



Major reform program: objectives and priorities

■ The objective of the reform program:

- ☐ to address fiscal imbalances,
- ☐ achieve structural change of the economy and
- ☐ restore competitiveness

■ Reform priorities:

- ☐ Macroeconomic stability and fiscal sustainability
- ☐ Lean, efficient and responsive public sector
- ☐ Efficient product, service and labour markets
- ☐ Better business environment

Efforts for fiscal sustainability continue

■ Rationalization and control of public expenditure

- Strong reduction in wages
- Automatic control mechanism for SOEs and LGs
- Reduction in operational expenditure

■ Tax reform and tax administration to broaden the tax base

- Repeal of the Code of Books and Records
- A new Tax Code will be voted before the end of the year
- Merger and centralization of tax offices in process
- Clearance of the backlog of tax cases

■ Achieving a sustainable social security system

- Strong reduction in pensions and social benefits
- Automatic control mechanism for expenditures on health
- Separate pension from health to control cost, unify collection of tax and social security contributions, address swiftly problems of fraud

Public sector reforms proceed with significant efficiencies despite strong resistance

- A reduction of public employment by 150,000 (about 20%) between end 2010 and end-2015 is under way
- A functional review of all Ministries is completed soon
- State Owned Enterprises and Local Governments and other entities of the general government are under a fiscal compact
- An e-procurement in the public sector is expected to be ready by the end of the year
- Major reforms take place in the organization of the health sector
- A major introduction of ICT technologies in the public sector is planned and is to start being implemented soon under the coordination of the Ministry of Public Administration

Reforms make the labor market more flexible and efficient

- **Reforms making the labor market more flexible in working arrangements & wage bargaining**
- **Part-time working arrangements** are allowed, possibility to opt for short-term (intermittent) is allowed; working on daily, weekly or other basis
- **Sub-minimum wages** established to facilitate **youth employment**
- **Wage floors are adjusted downwards**
 - 22% reduction in the minimum wage
 - 32% reduction in minimum wage for employees under 25
- **A new framework for the minimum wage has been established**
- **20% cut in overtime premia**

Reforms are making product and service markets more price flexible

- Retail market reforms
- Fuel market reforms
- Transport sector
- Regulated professions
 - Companies of temporary employment
 - Stevedores for land operations and ports
 - Kiosks and cantinas in public buildings
 - Accountants and tax consultants
 - Tourist offices and tourist guides
 - Customs brokers and
 - Real estate brokers

The business environment is improving

■ The administrative burden on firms is contained

- Public sector reform
- Product and service market reforms
- New Export Law reduces the red-tape in export activity

■ Doing business gets simpler:

- “One-stop-shop” - targeting at setting up a business in 1 day
- General Commercial Registry (GEMI) established
- Points of Single Contact (PSC) provide information on all procedures
- Licensing becomes simpler (environments, etc)

■ Promoting investment is encouraged

- Fast track for FDI
- New Investment Law

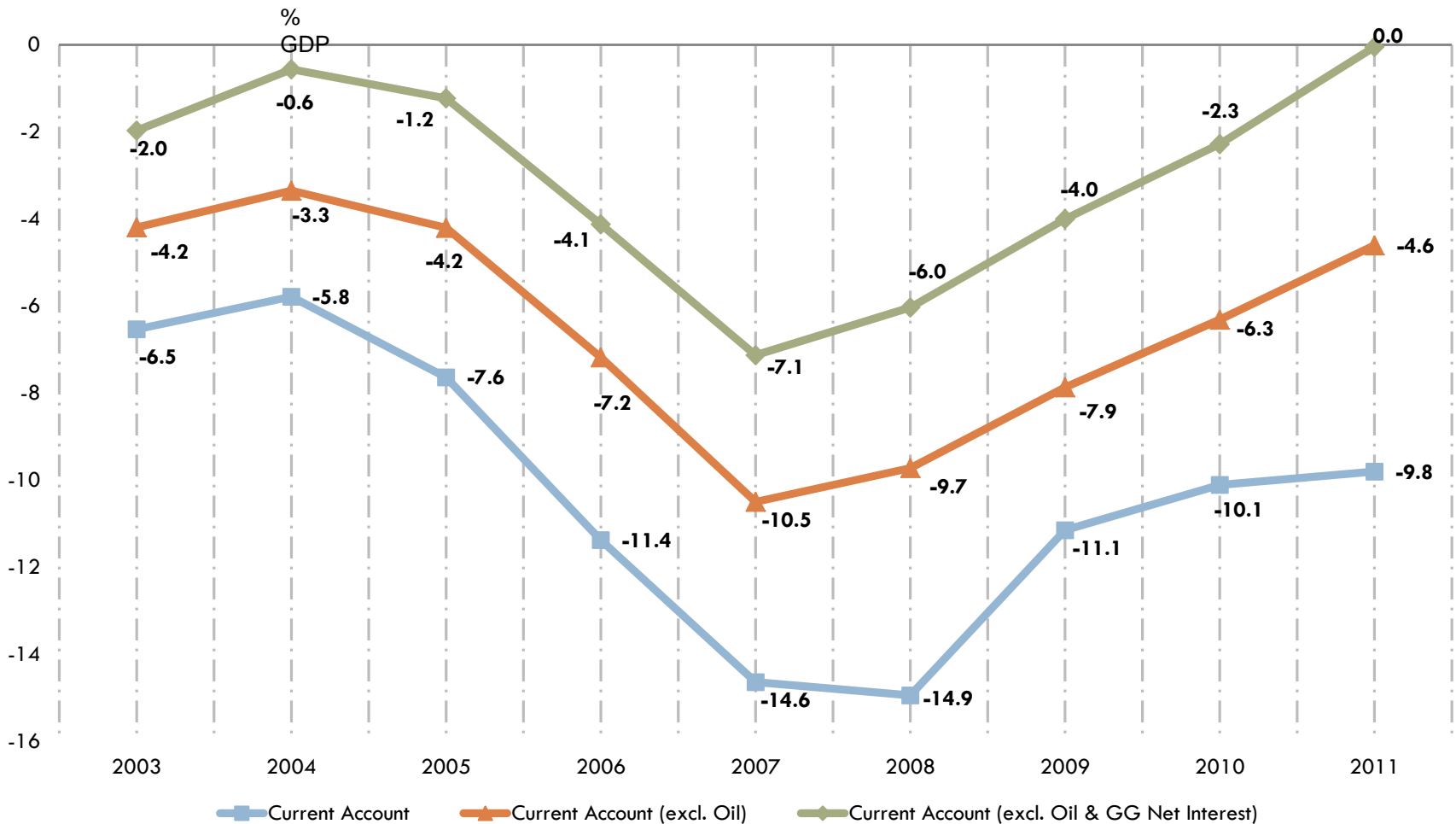
Privatization stimulates investment

- The **Hellenic Republic Asset Development Fund (HRADF)**, established in July 2011
 - Aims to maximize value from development and/or sale of assets
- **Privatization is taking momentum**
 - Privatization of IBC has been concluded with more under way
 - Launching of landmark asset sales:
 - OPAP, DEPA/DESFA, HELPE, EYDAP, EYATH,
 - tenders for the ports, airports and Egnatia Odos motorway
- **Privatization, efficiency and attraction of FDI**
 - Privatization is not a fiscal measure...
 -it is an instrument for increasing efficiency,
 -attracting investment and FDI, promoting growth,
 -while redeeming debt

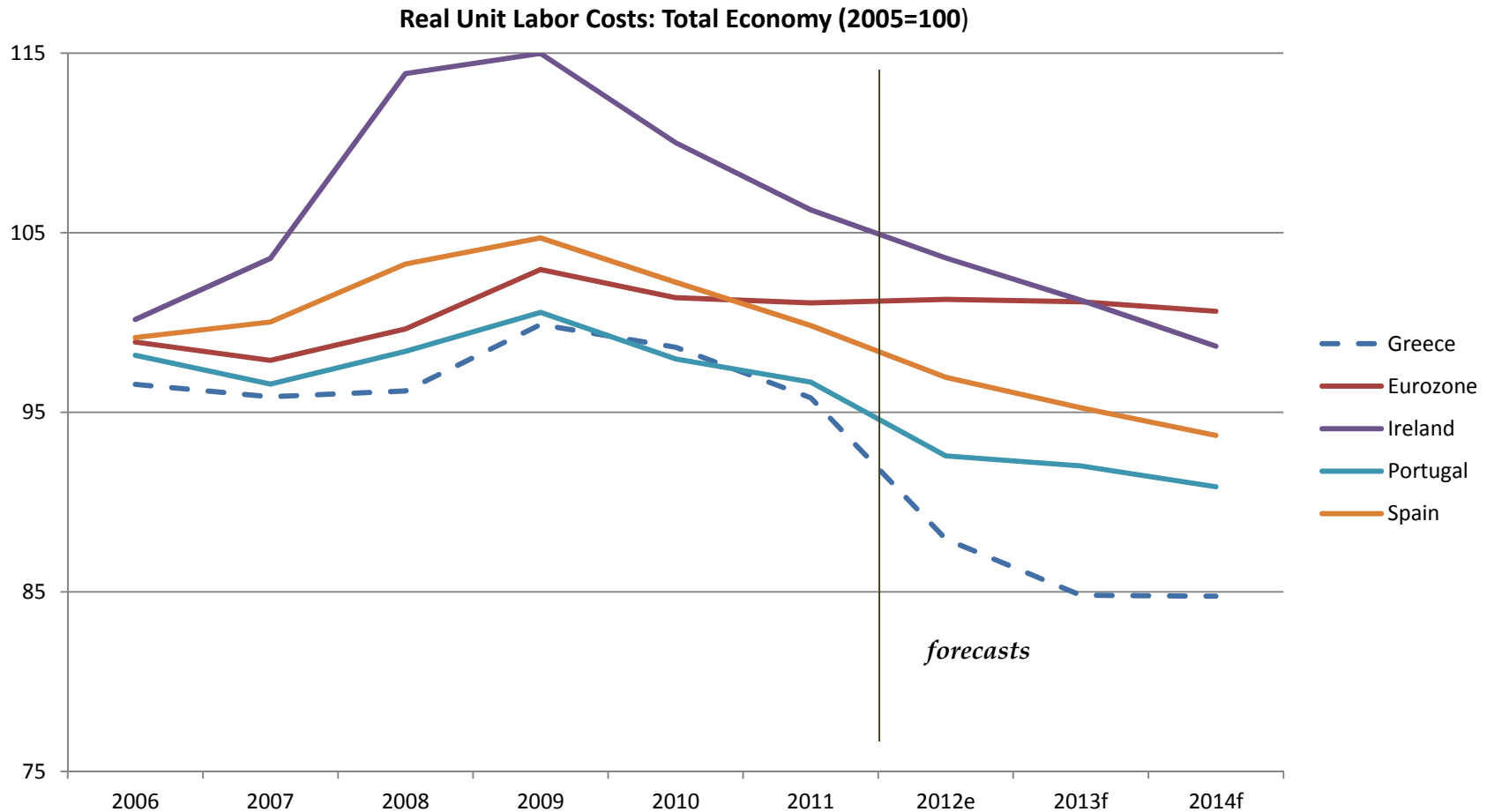


3. Competitiveness

Current Account Deficit is declining

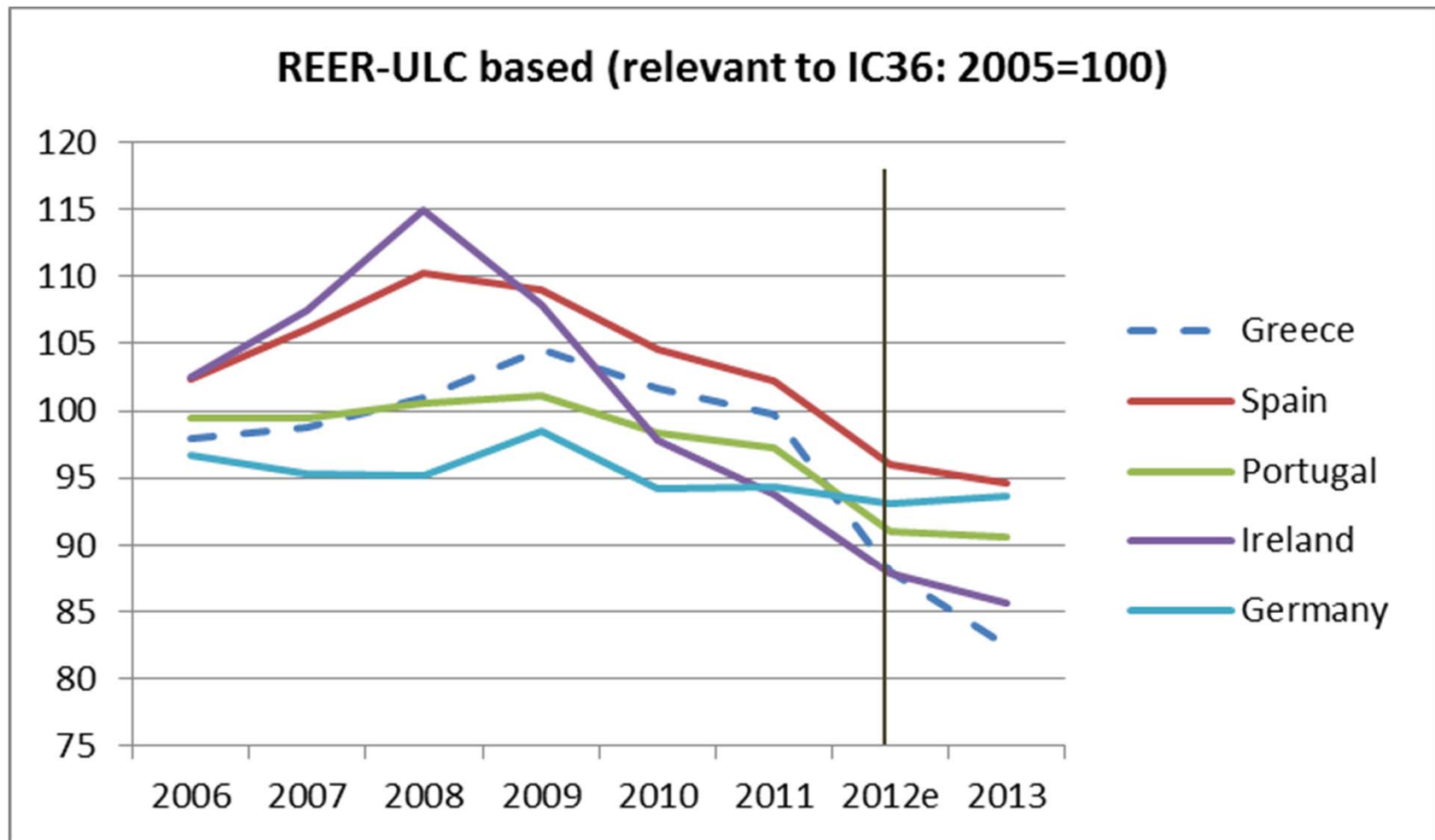


Substantial gains in domestic competitiveness in terms of Real Unit Labor Cost.



Source: AMECO (23/11/2012)

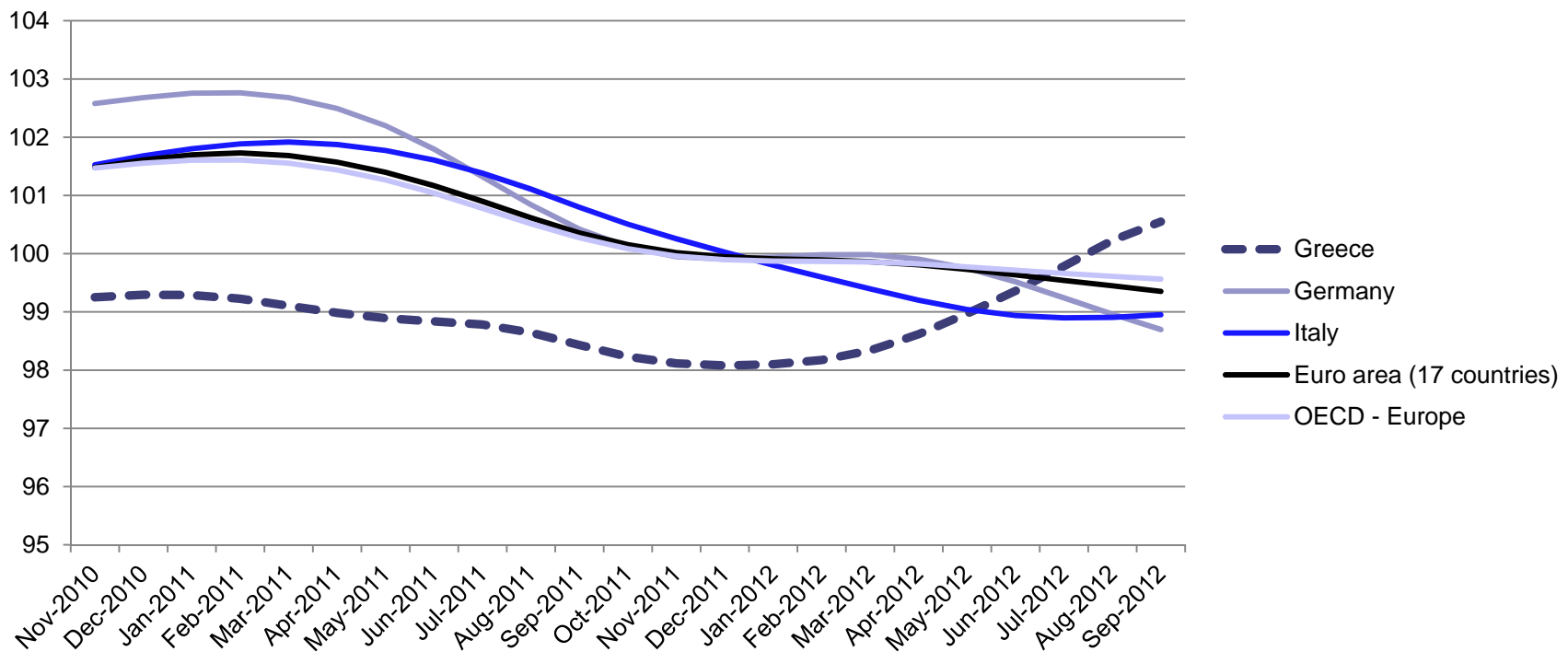
Competitiveness is regained in terms of Real Effective Exchange Rate



Despite deep recessionsigns of recovery are already present

Formation of positive expectations to lead to actual results
in the real economy

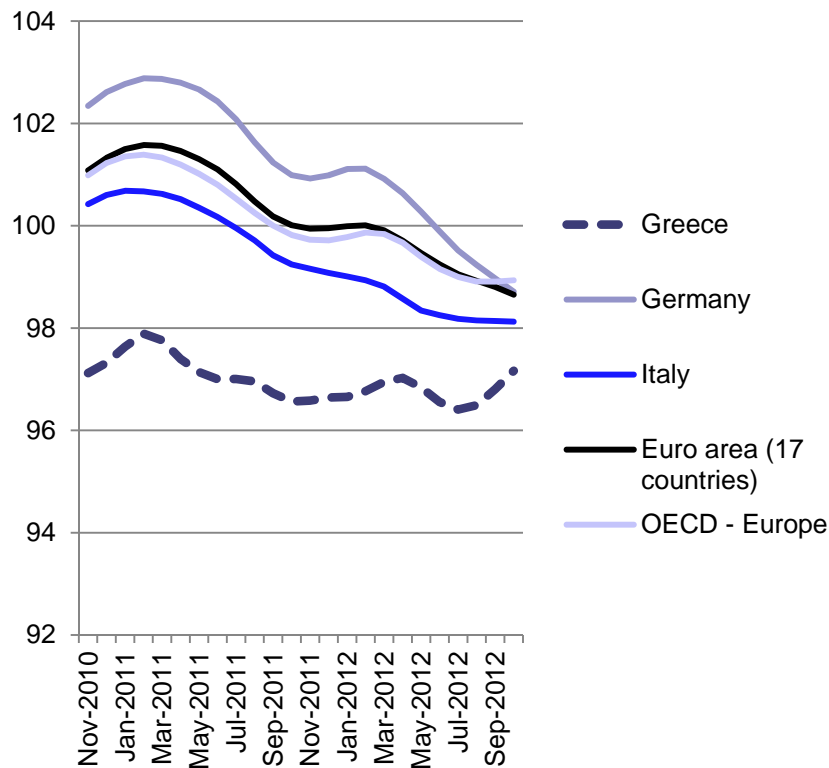
Graph 1: Composite Leading Indicator



Source: OECD.StatExtracts

Business confidence is increasing

Graph 2: OECD standardised Business Confidence Index



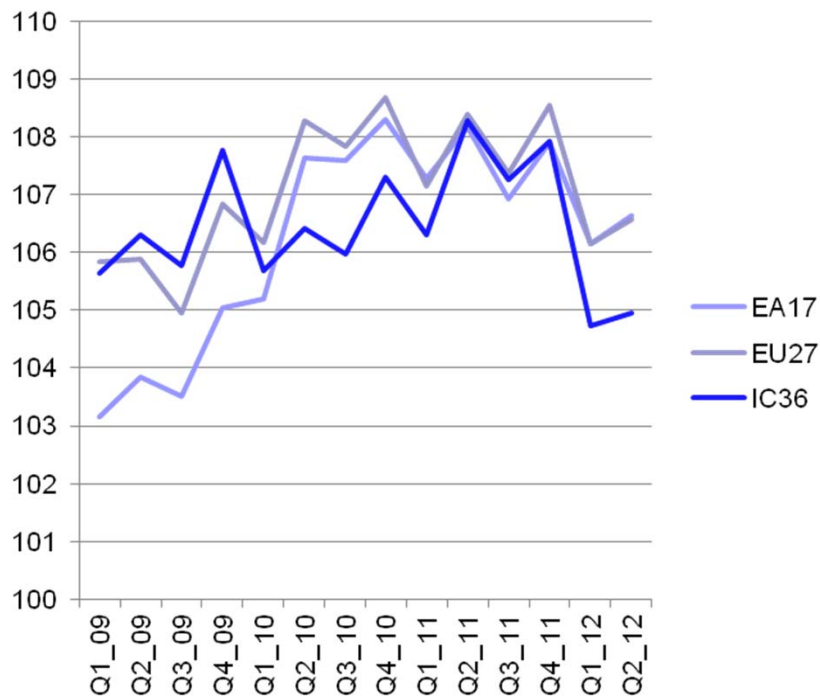
Source: OECD.StatExtracts

- Negative expectations in major industrialized EMU member-states
- Negative expectations within developed EU countries
- Expectations regarding Greece are positive
- Domestic trend expected to assist consumer's confidence

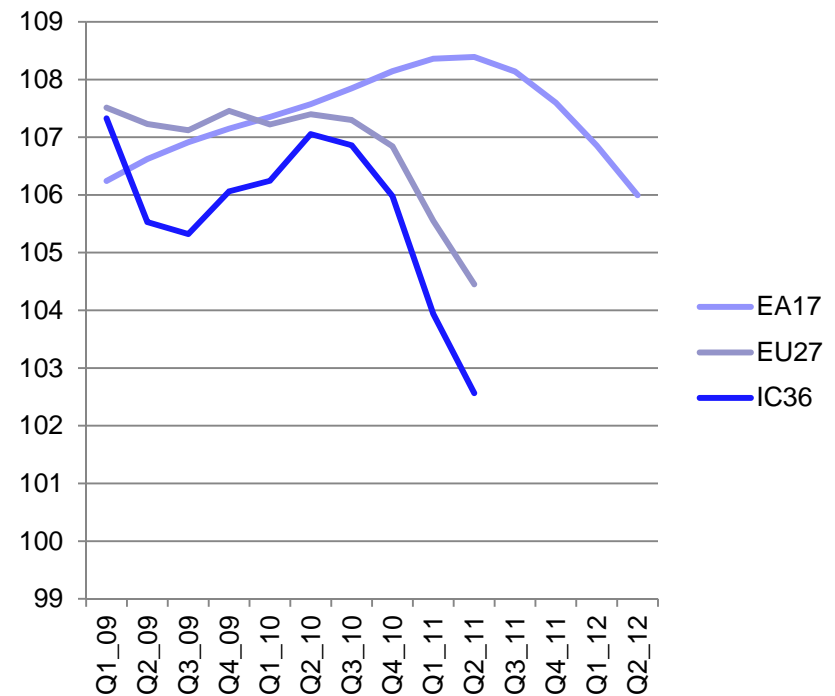
Competitiveness is restored in terms of costs

- Greece's real effective exchange rates to stress that Greece regains its relative competitiveness, thus converging towards EMU (EA17=100); EU (EU27=100); 36 major Industrialized Countries (IC36=100)
- Consumers face lower prices
- Producers face lower costs

Graph 1: Relative price indicators, based on HICP



Graph 2: Quarterly REER based on GDP deflator



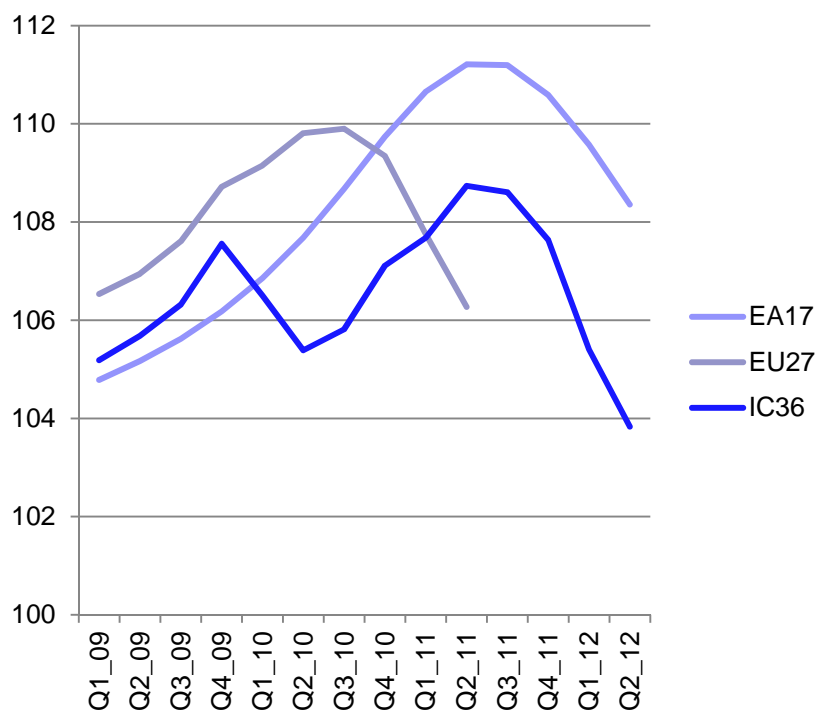
Source: AMECO

Greek products become more competitive

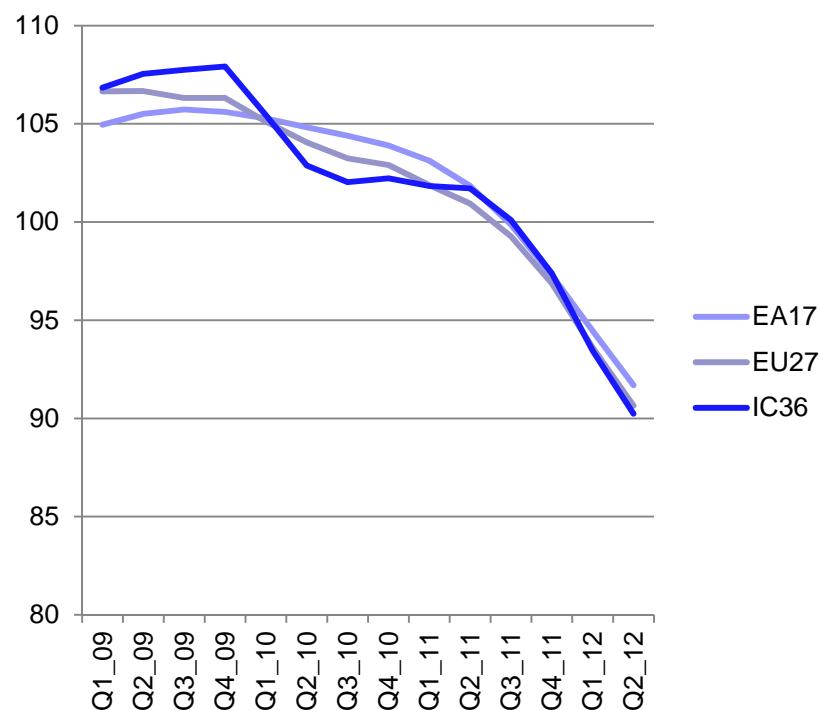
- Greek products to become competitive in international markets
- Boost in exports
- Current account balance improvement

- Fall on labor costs to be one of the major factors to currently assist economy's relative competitiveness

Graph 3: Quarterly REER based on export prices of goods and services



Graph 4: Quarterly REER, based on ULC in total economy

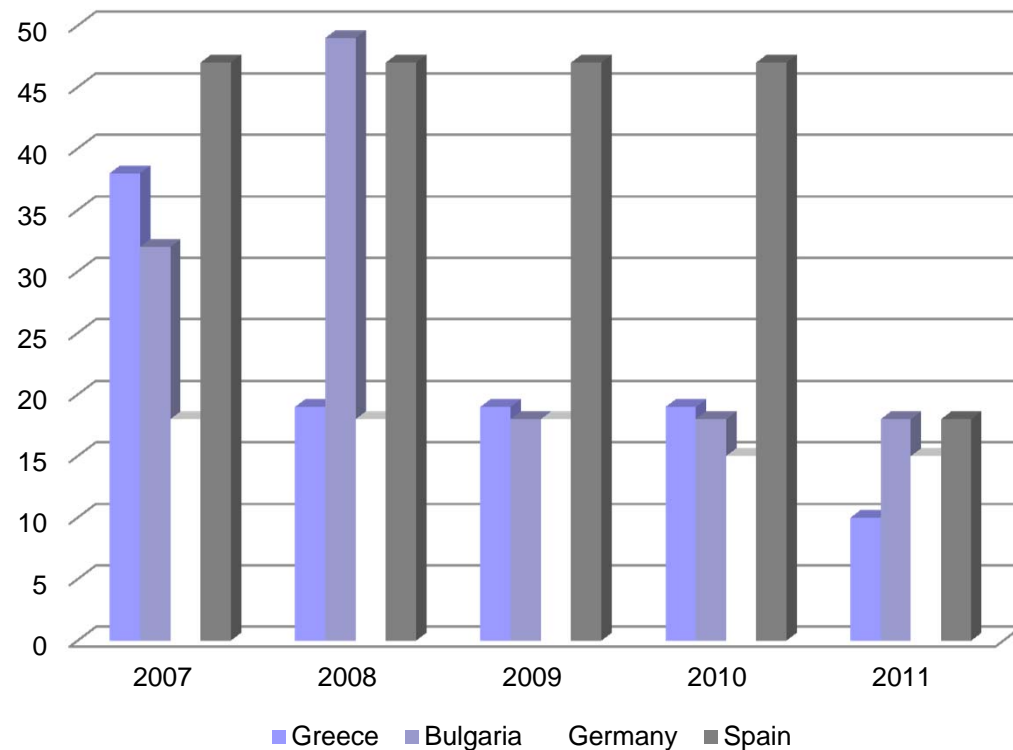


Source: AMECO

Business environment is improving

- Efforts in promoting an environment that assists start-ups have paid-off
- Ease-of-doing-business increased, as bureaucracy regarding start-ups is restrained
- Greece's relative position to other competing economies is advanced

Graph 1: Time required to start a business (days)

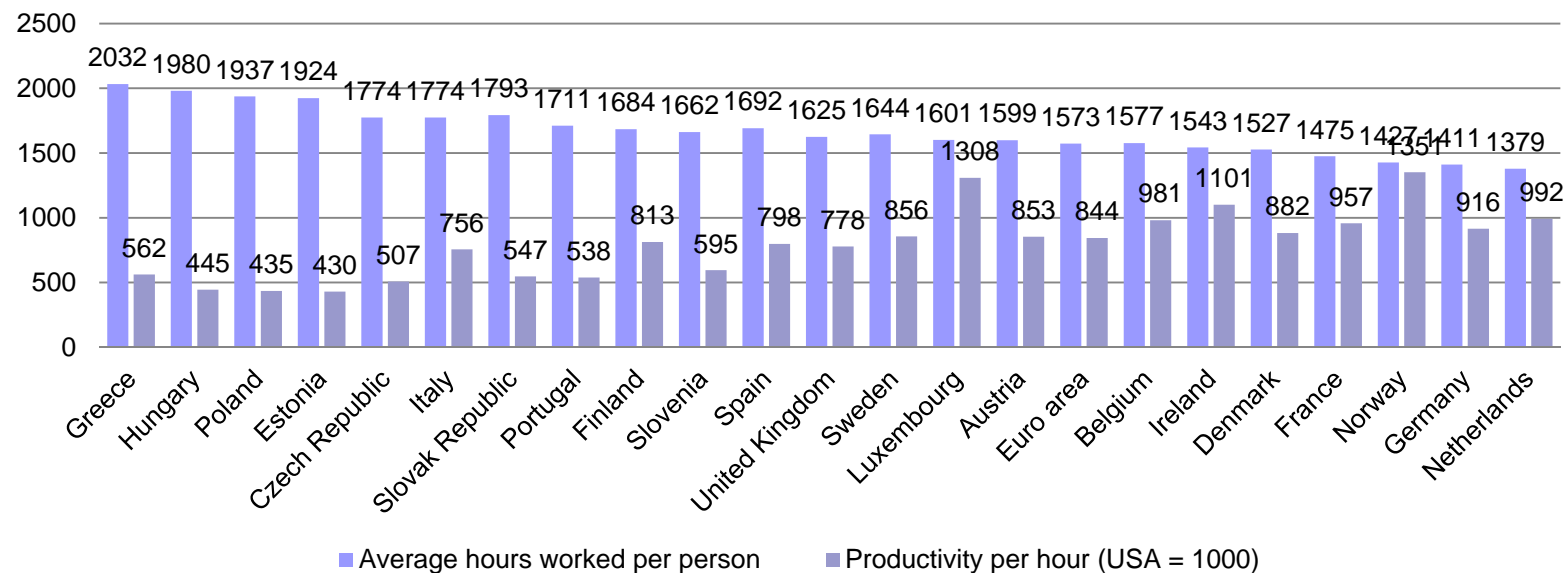


Source: OECD.StatExtracts

There is high potential for increasing efficiency and for productivity gains

- Greek labor workforce is the hardest working in Europe

Graph 1: Annual total hours worked per person and productivity per hour (2011)

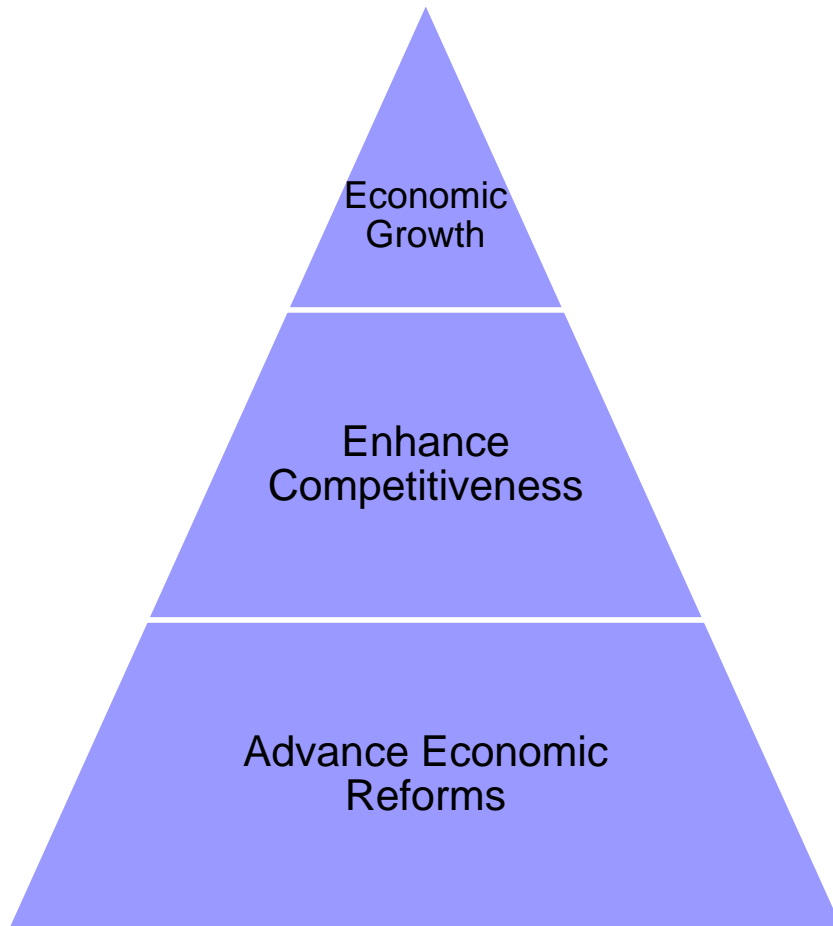


Source: OECD.StatExtracts



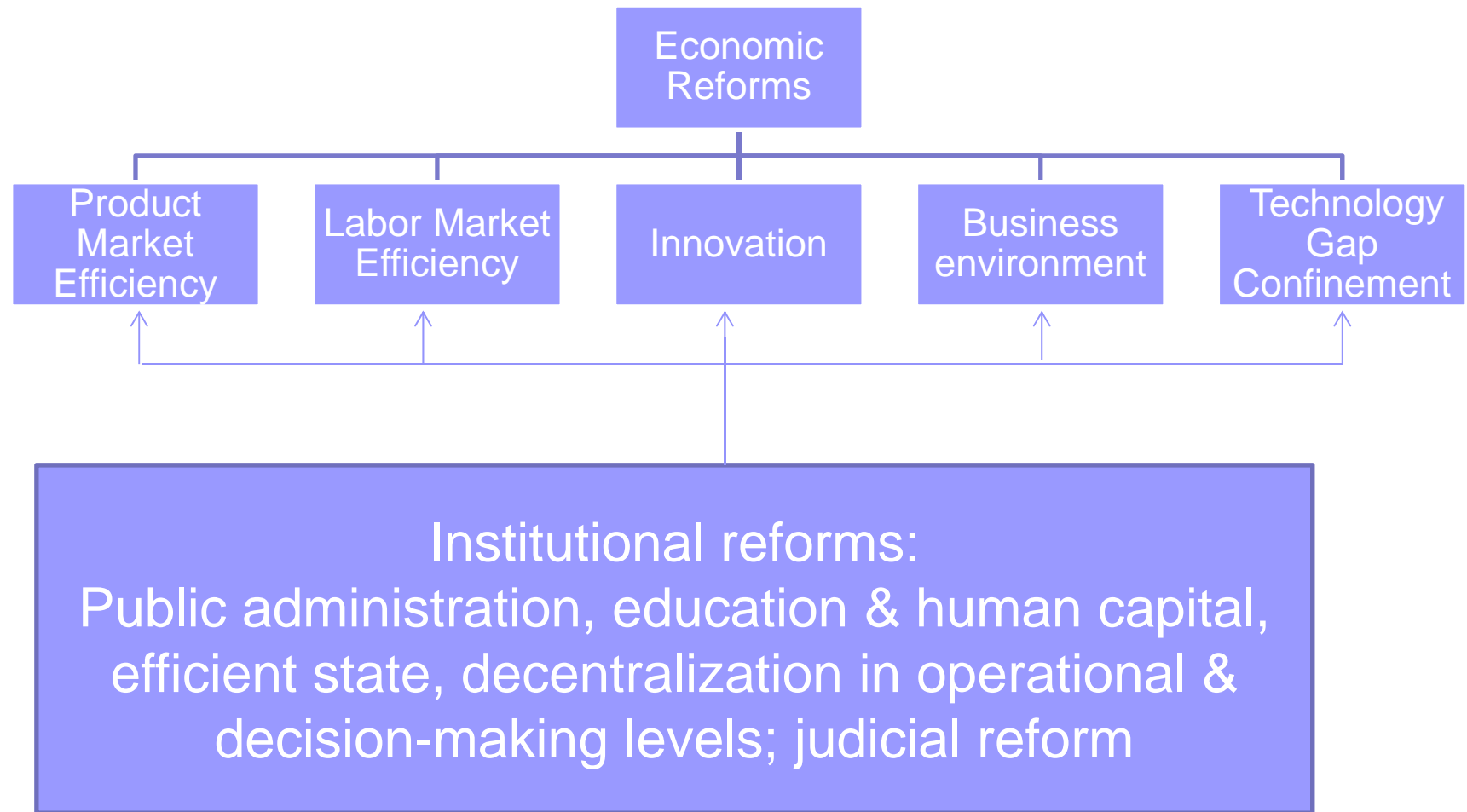
4. A growth strategy

Economic Growth Strategy



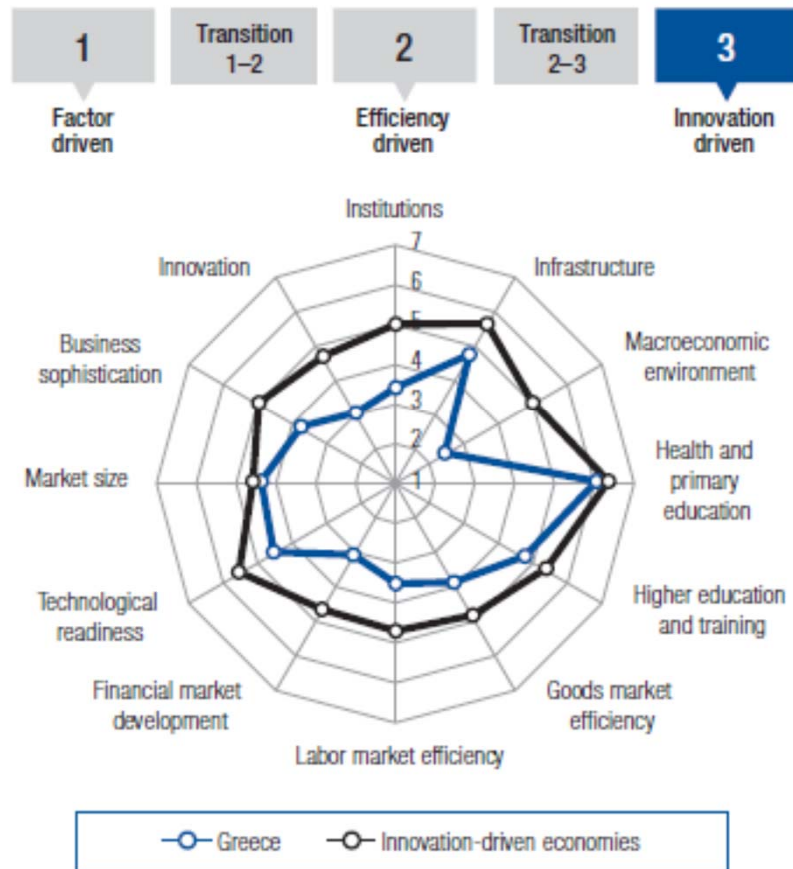
- **Outward orientation** is a must
-Internal demand is dwindling and large primary surpluses are absolutely necessary
- A **market based** model that will enhance strengths and restrain existing weaknesses
- **Competitiveness** should be enhanced – market efficiency
- **Institutions** – reform of the public sector, education, justice

Policy agenda for economic growth



Potential for knowledge and technology based economy exists

Stage of development



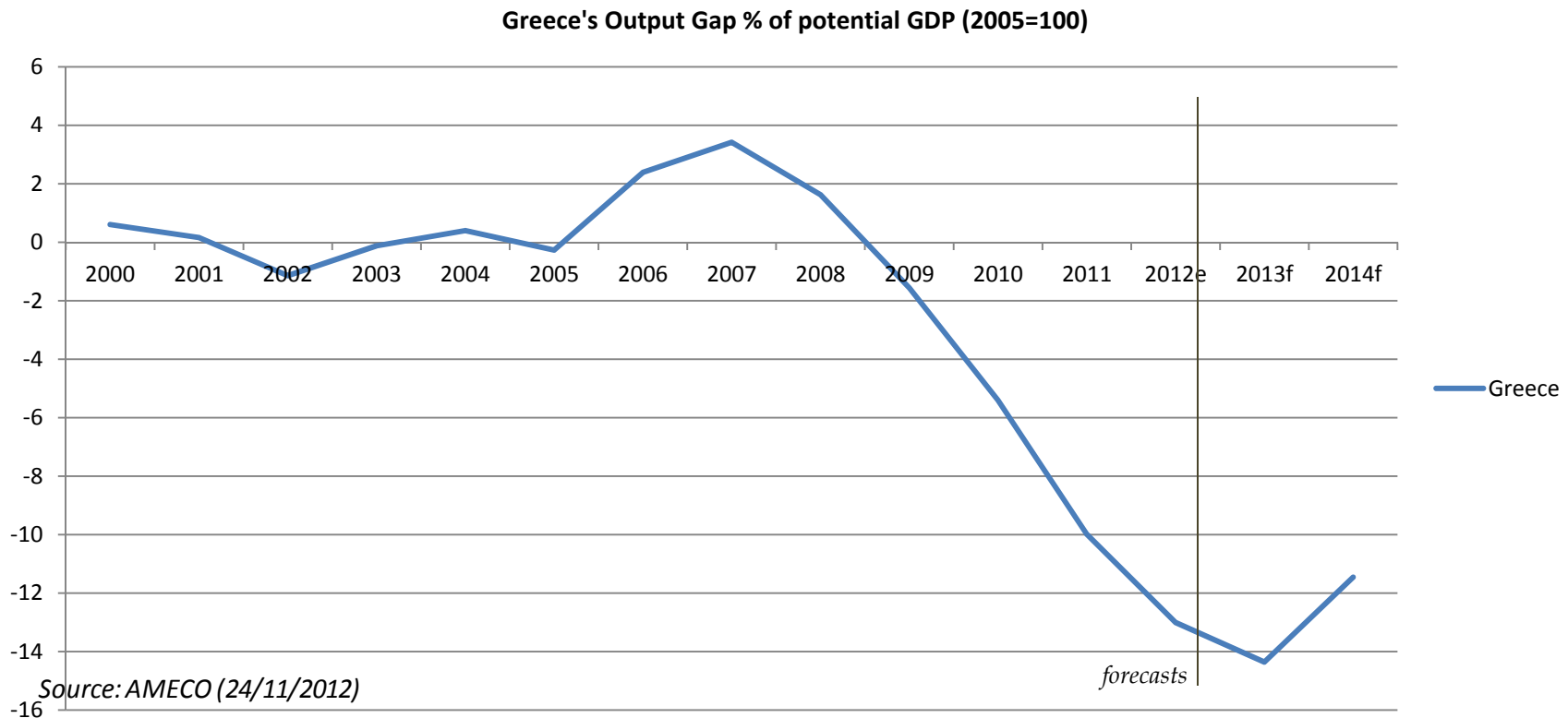
Source: The Global Competitiveness Report 2012-2013, World Economic Forum

■ Strengths:

Competitive advantages:

1. Quality of air-transport and fixed telecommunication infrastructures
2. Healthy workforce
3. High percentage of students entering tertiary education
4. Quality of math and science education
5. Availability of scientists and engineers
6. Domestic market size
7. Number of patents under the Patent Co-operation Treaty

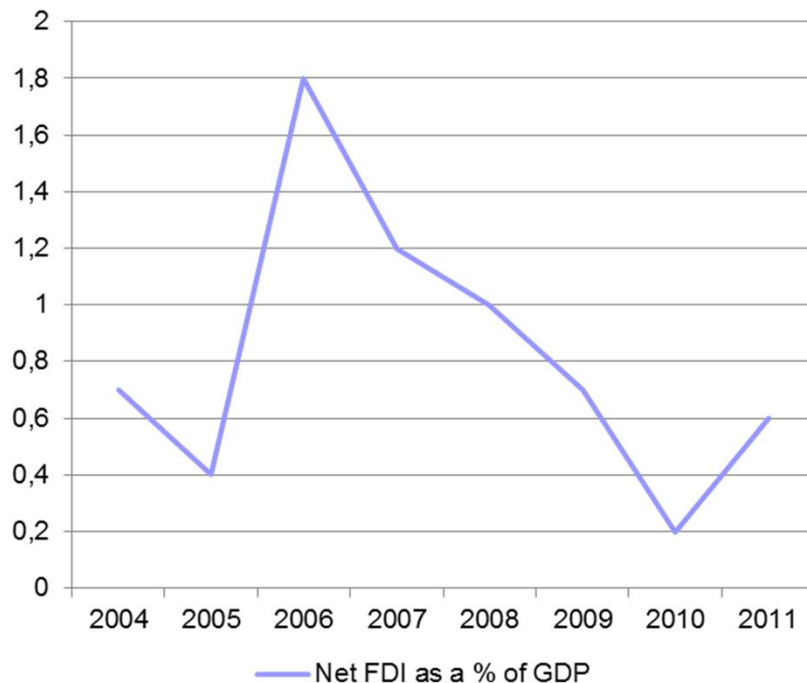
The very large output gap, much larger than any other OECD country, offers a strong growth potential



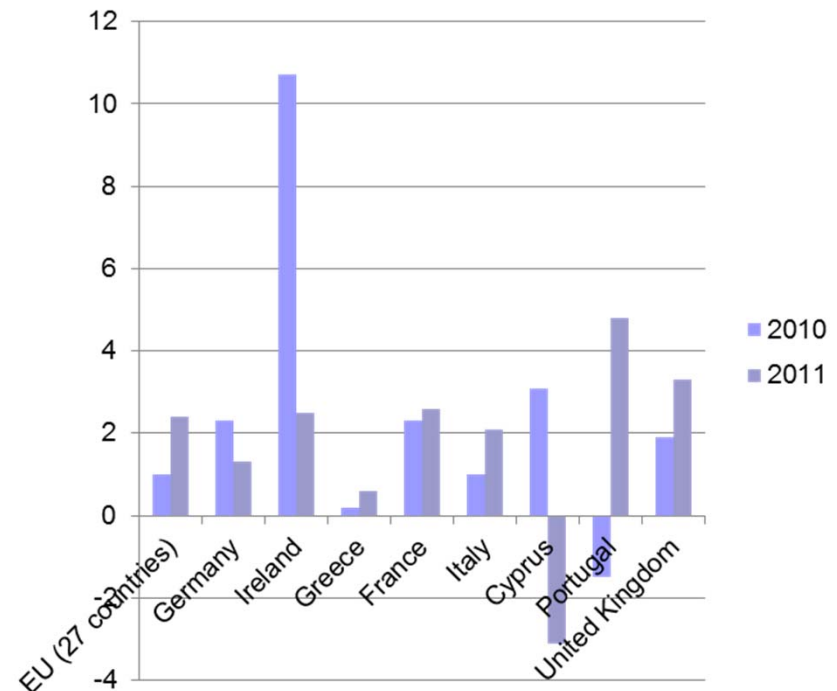
Huge potential for improving FDI economic impact

- Recent low FDI flows signify huge potential
- Cross-country comparisons suggest the existence of great capacity in forming an FDI-friendly economic environment

Graph 1: Evolution of FDI intensity in Greece



Graph 2: Cross-country comparisons on FDI intensity



Source: OECD.StatExtracts



Creating a healthy banking sector is underway

- **Recapitalisation needs are nearly solely sovereign related (PSI+ losses: c.€24bn for the systemic banks);**
- **Before the PSI+ banks were adequately capitalised and managed.**
- **The recapitalisation is not a “gift” to banks. Recapitalisation will signify a return to normality and will provide liquidity for the economy**
- **Banks will be given the opportunity to retain their independence if the participation by private investors exceeds 10%. The Hellenic Financial Stability Fund (HFSF) will provide the remaining recapitalisation amount.**
- **The HFSF will act as a “temporary” investor, through instruments that can be redeemed if certain conditions apply.**
- **In parallel, a significant consolidation and restructuring is taking place leading to the creation of healthy banking groups**



Greece's economic revival will depend upon:

- Creation of a New Economic (market friendly) Paradigm through the:
 - Completion of economic reforms
 - Achievement of fiscal sustainability
 - Existence of an efficient public administration
 - Liberalized product, service and labour markets
 - Creation of a friendly business environment that fosters growth
 - Remaking of a healthy banking sector
 - Attraction of FDI that provides links to the international economy,
- End-result: An environment of healthy competition, increased efficiency, productivity and competitiveness, revival of economic growth, for the benefit of society as a whole



Thank you for your attention