

3.8 Greece

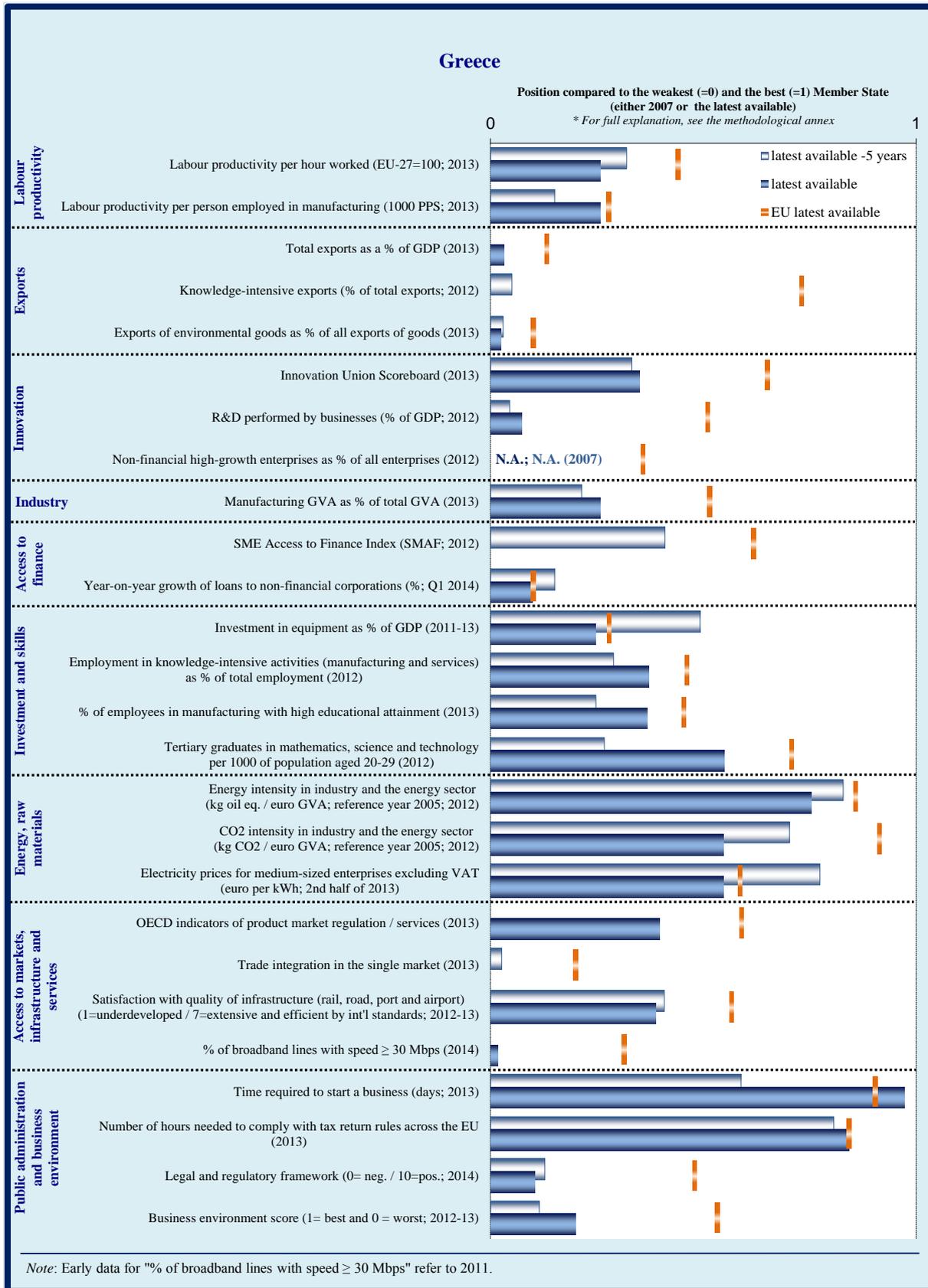
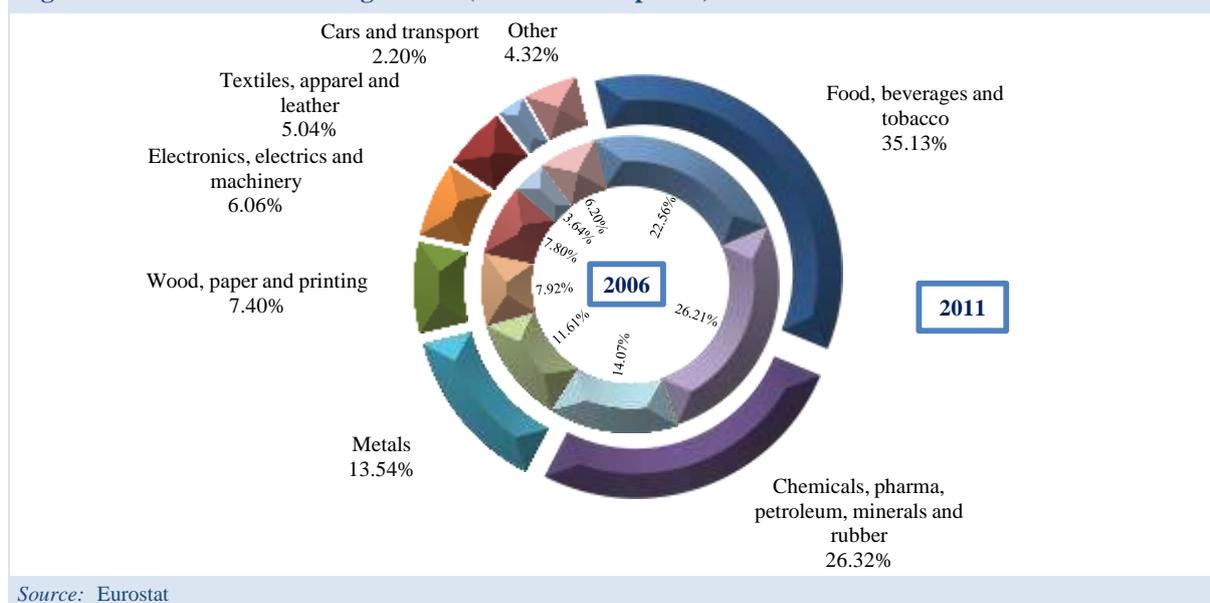


Figure 3.8.1: Manufacturing sectors (GVA at basic prices) - Greece

3.8.1 Introduction and performance

Services are the mainstay of the Greek economy. Manufacturing contributes 9.9 % of the total value added (EU average 15.5 % in 2011), specialising mainly in food processing (the manufacture of vegetable oils, and the processing and preservation of fruit and vegetables). Other important sectors are metal, chemicals, cement and textile.

The prolonged recession has severely affected the Greek economy. Statistical data show that Greece is returning to growth in 2014. Confidence indicators continue to improve and structural reforms have improved competitiveness. The Economic Adjustment Programme has reduced macroeconomic and fiscal imbalances. The recovery is forecast to gain strength in 2015, but full implementation of the adjustment programme continues to be crucial to consolidate recent progress. The robust improvement of the tourism sector has helped the economy. The repayment of government arrears and substantial absorption of EU funds, through major EU-funded construction projects, have had a positive impact on investments. For example, work has started on four large motorways with a combined value of over EUR 7 billion.

Greece's unemployment and social situation is still challenging, but ambitious labour market reforms implemented under the adjustment programme have markedly improved cost competitiveness, which,

together with employment-support measures financed with EU structural funds and the pick-up in investment, should lead to a fall in unemployment to 26 % in 2014 and 24 % in 2015.

Corruption in Greece's public and private sectors continue to be of concern. According to the Greek branch of Transparency International, state hospitals, tax offices and urban planning departments are the main sites of public corruption. In the private sector the health industry, banks, lawyers, the car and construction sectors are the most corrupt. Some steps have been taken to confront corruption as part of a national anti-corruption action plan. An anti-corruption coordinator has been appointed to carry out the plan and an accreditation system has been introduced to ensure sound and efficient management of EU structural funds by public authorities.

3.8.2 Access to finance and investment

Access to finance

The banking sector is being capitalised to ensure that it is in a better position to support the growth of the economy. However, the sector is still reluctant to provide finance to small and medium-sized enterprises (SMEs). Only 33 % of Greek SMEs obtained the financing they sought in 2013 (EU: 65 %). Access to finance is the most pressing problem

for 32 % of SMEs (EU: 15 %). ⁽¹⁾ Bank lending to the corporate sector is still constrained, making it difficult to finance production and investment. One of the most important financial issues for SMEs is the refinancing of existing exposure.

The government's efforts to ease financing conditions have focused on the lending of the European Investment Bank (EIB) to Greek commercial banks so that they in turn can lend to SMEs, and on providing banks with risk-sharing. In 2013, four finance contracts worth EUR 300 million were signed via the Guarantee Fund for SMEs.

A number of initiatives have been promoted jointly, with the EIB targeting different financial needs:

- an initiative supporting SMEs through risk sharing and risk capital;
- an initiative investing in regional urban projects;
- the State Guarantee Facility, supporting investment for SMEs and mid-caps in manufacturing, tourism and services;
- the Trade Finance instrument, supporting international trade.

The Institution for Growth (IfG) is an initiative of the Greek Ministry of Development & Competitiveness in cooperation with the German government (GKfW), the EU Task Force for Greece, the EIB, the EIF, the European Commission, bpi France and the French government. With a planned initial capital of more than EUR 500 million, the IfG will finance SMEs and infrastructure projects through equity and loans, contributing to the easing of financing constraints.

The Hellenic Fund for Entrepreneurship and Development (ETEAN) was set up as a state-owned corporation in February 2011, with a start-up capital of EUR 1.7 billion. EU structural funds provide substantial funding. ETEAN provides guarantees for loans to SMEs by banks and other financial institutions. The fund also co-invests in other funds and instruments and three funds have been set up: for *energy conservation* (EUR 200 million from EU structural funds), for *fisheries promotion* (EUR 35 million from EU structural funds) and for *entrepreneurship* (EUR 540 million from EU structural funds).

In 2013, a new fund to support island entrepreneurship was set up with a budget of EUR 80 million. The fund provides loans to SMEs up to a maximum of EUR 30.000, at low or zero interest rates and without collateral.

Investment

The Economic Adjustment Programme for Greece covers a wide range of ambitious growth-enhancing structural reforms to modernise product markets and improve the business environment, with a view to creating new opportunities for investment, innovation and employment. The “Fast-Track” procedure for licensing and the Law on Investment Incentives are two main pillars of investment support:

A) Fast Track

Time-consuming and costly procedures and the uncertainty about the legal framework for licensing and permit systems ⁽²⁾ have hampered investments particularly large-scale investments.

The law on acceleration and transparency of implementation of strategic investments provides for faster and more transparent procedures for large-scale investments (fast track). With the new law, factors that have in the past deterred investors, such as bureaucracy, a lack of transparency and the complexity of the legislation, have been improved. The aim of the law is to provide licenses quickly, giving priority to strategic investments, i.e. investments that could have a significant impact and create long-term results to hasten a return to growth.

To be considered strategic investment, the total cost must exceed EUR 100 million, irrespective of the sector, or lower amounts depending on the sector or number of new jobs created. So far, most approved strategic investments are in the field of energy and tourism.

The fast-track procedure provides for an investment license to be granted or refused within 45 days. The law gives tacit approval if the deadline is not met.

B) Investment incentives

European Commission, 14 November 2013.

⁽²⁾ TFGR sixth activity report, March 2014.

⁽¹⁾ 2013 SMEs' Access to Finance Survey, Analytical Report,

The law on Investment Incentives provides for different types of aid, e.g. tax relief comprising exemption from payment of income tax on pre-tax profits, subsidy payment by the state of a sum to cover part of the investment, a leasing subsidy which includes payment by the state of a portion of the instalments paid under the leasing agreement to acquire new machinery and equipment.

3.8.3 Innovation

Innovation

According to the Innovation Union Scoreboard 2014, ⁽³⁾ Greece's performance is below the EU average. The country is considered a moderate innovator. Over the analysed period of eight years, growth performance at 1.2 % is below that of the EU and the performance gap with the EU has increased. The relative performance to the EU fell from 74 % in 2008 to 69 % in 2013. Greece performs below the EU average in particular for venture capital investment and R&D expenditure in the business sector.

Greece has a weak articulation of research and innovation policy with other policies, with particular feeble links within the knowledge triangle sectors. Moreover, exploitation of research results by the business sector is very limited, with low patenting activity.

One of the EU's main tools to support structural reforms is cohesion policy. EU structural funds have invested more and more in competitiveness, research and innovation and provided substantial resources for investment in Greece. Greek innovation policy is based on the use of EU structural funds and research funding, with limited resources available for a strategic vision. However, a public consultation has been carried out with the aim of establishing more favourable conditions for increasing R&D and innovation. To support R&D investments, a new law (Law 4172/2013) provides for deduction of R&D expenses at a higher rate of 30% from the gross income of firms.

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http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014_en.pdf

3.8.4 Energy and sustainability

Energy

Since the onset of the financial crisis, energy consumption has decreased markedly as the economic recession has affected demand.

Reducing dependence on imported energy, exploiting indigenous on-shore and offshore natural resources, maximising the penetration of renewables and achieving a significant reduction in emissions of carbon dioxide are the main pillars of the national energy plan.

Photovoltaic installations have seen a sharp increase over the past few years as a result of generous support schemes and falling development costs.

Greece has published a timeline and a list of actions to be taken to facilitate the transition to a more mature and competitive gas market model. Greece is also focusing on hydrocarbon exploration and production. In May 2014, it signed lease agreements for three on-shore and offshore fields, while a new licensing round will be announced for areas of Western Greece and the South of Crete.

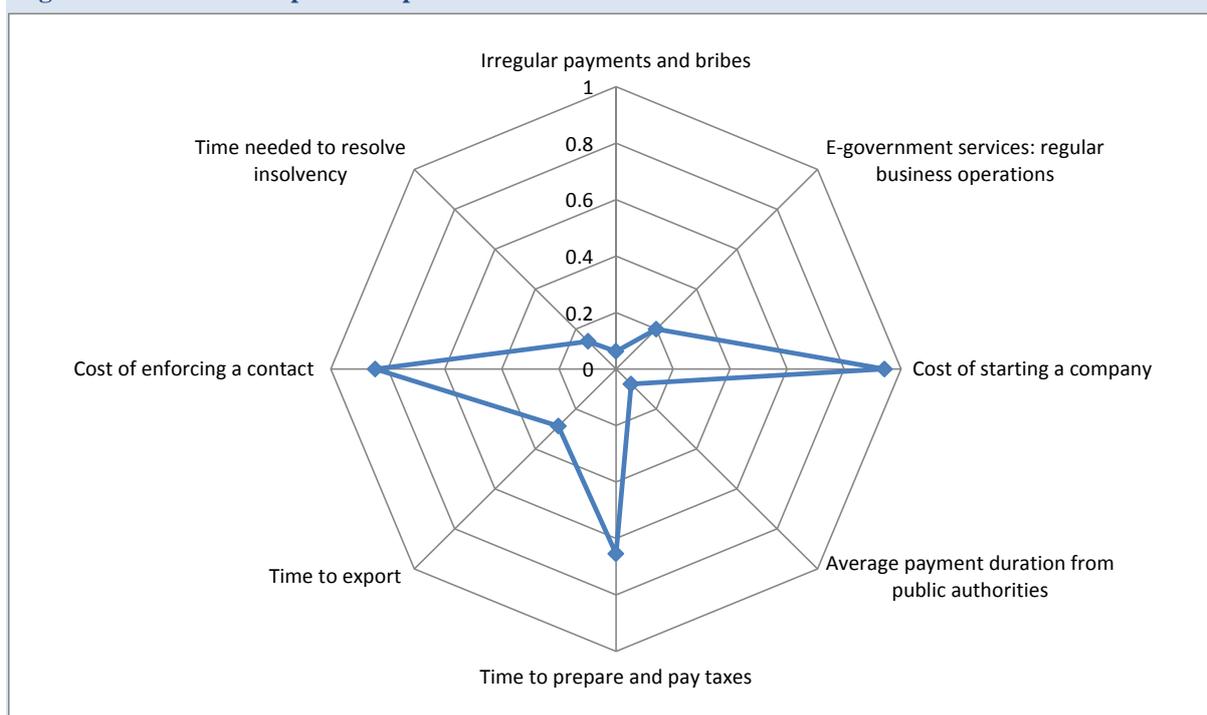
The reform of the Greek energy market seeks to boost competition and to make the sector financially sustainable. The removal of remaining distortions in the electricity market and greater competition in supply are necessary measures to improve the competitiveness of the sector. The privatisation of the public power corporation has been launched and the sale of the network operator is progressing.

Sustainability

Waste management is considered a critical environmental problem in Greece and a pressing issue. Greece depends heavily on landfills waste disposal. Around 80 % of waste is still landfilled and the EU target of cutting biodegradable municipal waste by 75 % by 2010 was not met despite a four-year derogation period. ⁽⁴⁾

Recycling of glass, paper and plastics has increased in recent years but there are still not enough facilities for a more efficient recycling of waste. Recycling of municipal waste has increased by more than 10 %

⁽⁴⁾ Municipal waste management in Greece. European Environmental Agency. February 2013.

Figure 3.8.2: Overall profile of public administration - Greece

Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing business; Intrum Justitia; OECD; World Economic Forum; European Commission

over the last 10 years but significant efforts are still needed to comply with EU targets by 2020. ⁽⁵⁾

3.8.5 Public administration and business environment

Public administration

The authorities are advancing, with some delays, on public administration reform, delivering on the 2013 quantitative targets and increasingly focusing on qualitative aspects. The Greek government, with the support of the Taskforce for Greece and French experts, aims at improving quality and efficiency through, inter alia, a new system of appointments for managers, a performance evaluation framework, the reorganisation of Ministries, new staffing plans with clearly designated responsibilities, a new internal job market to promote transparent mobility across the administration, better financial management, measures to reduce corruption, and a new e-government strategy. The framework for an inter-ministerial coordination General Secretariat under the Prime Minister's authority has also been set up.

The government is on track to deliver the decrease in general government employment by 150,000, ahead of the deadline set at the end of 2015. The rule one hiring per five retirements will remain through 2014. The government intends to assess services that can be provided more efficiently through outsourcing. An effort has also been made to address disciplinary cases. Courts have sped up procedures and sanctions start to be applied.

Business environment

Structural reforms are being implemented to improve the business environment, which has been hampered by a high level of regulation and bureaucracy.

Changes have been made to the General Commercial Registry (GEMI), which is a state-owned electronic database hosted by the Chambers of Commerce. Data stored in the registry now includes companies' representatives, annual accounts, the tax identification number, company statutes, the company's GEMI number and court decisions. The database has been connected to other registers for electronic processing and for e-procurement the public sector can access the database to obtain the required information. In addition, companies can now use a website to file the

⁽⁵⁾ Municipal waste management in Greece. European Environmental Agency. February 2013.

company seat and statutory amendments, as well as for annual financial accounts.

The cost of starting up a company has fallen. The requirement to publish a notice in the Official Gazette has been removed (with total savings for businesses estimated at around EUR 46 million/year) and the requirement to register with a chamber of commerce will be removed on 1 January 2015. In addition, notaries are no longer required for all types of companies and it is no longer compulsory to submit original or certified copies for all transactions with the government.

The IKE, a form of private limited liability company, was introduced in Greek law in July 2012. The high number of newly established IKEs is a sign of its success. It is a more flexible corporate form, which does not require either a notary or publication in the Official Gazette. The biggest difference with other limited companies, when the new type of company was introduced, was that IKEs had no minimum capital requirement. The minimum capital for other limited companies, which was EUR 4,500, was removed in 2013. In total, 2821 companies registered as IKEs in 2013.

Greece's improved ranking in the World Bank Doing Business Report can be partly attributed to the new private limited liability company form. However, its ranking is still low compared with other EU Member States, mainly because of the high level of regulation. Greece is among the weakest performers in the OECD. Under the Economic Adjustment Programme, restrictions on competition are being removed in many parts of the economy. Implementation has started on most of the recommendations of an OECD study on legislation and practices in four key sectors of the economy, e.g. tourism, retail trade, food processing and construction materials. The removal of poorly designed regulations, which benefit few, is expected to have positive effects worth EUR 5.2 billion for the economy.

The retail sector has seen a sharp downturn because of the economic crisis. Liquidity is a major problem for the sector. According to the National Confederation of Hellenic Commerce (ESEE), since 2008, 120,000 retail and wholesale stores have closed down. Of the 40,000 newly opened stores, almost 80 % are coffee shops and fast food restaurants.

Licensing procedures are changing to make them simpler by using electronic applications and outsourcing audit mechanisms. An online submission system has been developed and should be implemented by the end of October 2014. The integrated IT system aims to develop e-services for licensing, which should save businesses time, expense as well as administrative work and, equally important, increase transparency.

Internationalisation

Internationalisation is a key pillar of Greece's economic strategy. Implementing an export strategy helped improve Greece's ranking in the World Bank Doing Business report on Trading Across Borders from 84th place in 2012 to 52nd in 2013.

Enterprise Greece is the official state agency to promote investment, exports and make Greece more attractive as an international business partner. A key benefit of the new, integrated body is closer coordination among ministries and public- and private- sector bodies.

3.8.6 Conclusions

Statistics show that Greece is returning to growth after a long and severe recession. Structural reforms have improved competitiveness and the Economic Adjustment Programme has reduced macroeconomic and fiscal imbalances. Absorption of substantial EU funds, through major EU-funded construction projects, will have a positive impact on investments.

Access to finance is still tight for SMEs. Only 33 % of Greek SMEs obtained the financing they sought in 2013 (EU: 65 %). The Institution for Growth, which is being set up, should ease the financing constraints. It will finance SMEs and infrastructure projects. In addition, EU structural funds offer significant amounts for access to finance through the Hellenic Fund for Entrepreneurship and Development.

Greece's innovation performance is below the EU average and the country is considered a moderate innovator. Its performance relative to the EU fell from 74 % in 2008 to 69 % in 2013. The Greek innovation system is being supported by EU structural funds and research funding, but with limited resources invested for a strategic vision.

Greece's improved ranking in the World Bank Doing Business Report can be attributed to recently adopted legislation in a number of areas. However, its ranking is still low as compared with other EU Member States, mainly due to a high level of regulation. Under the Economic Adjustment Programme, restrictions on competition are being removed in many parts of the economy.