COMMISSION OF THE EUROPEAN COMMUNITIES

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Implementation of the Lisbon Strategy Structural Reforms in the context of the European Economic Recovery Plan: Annual country assessments – a detailed overview of progress made with the implementation of the Lisbon Strategy reforms in Member States in 2008

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INTRODUCTION

In 2005, the Lisbon Strategy was streamlined and renewed and the focus placed firmly on growth and employment. New governance structures were established, based on a clear partnership between the Community and Member States. As part of the partnership, all Member States have drawn up National Reform Programmes (NRPs) setting out their response to the particular challenges facing them. They also submit implementation reports to the Commission, detailing progress made on their key challenges.

In the context of this partnership, the Commission each year assesses progress made by Member States with the implementation of structural reforms as set out in their NRPs and, more recently, in their action plans responding to the Council's country specific recommendations.

The economic conditions in the European Union have recently worsened significantly as a result of the global financial crisis, whose effects are being felt in the wider economy. At the request of the European Council, the Commission at the end of November submitted a European Economic Recovery Plan[1], which the European Council in December 2008 agreed to.

To take account of the exceptional situation, as part of its yearly country assessments in the framework of the Lisbon strategy for growth and jobs, the Commission has on 28th January 2009 adopted a recommendation for a Council recommendation on the "Implementation of the Lisbon Strategy Structural Reforms in the context of the European Economic Recovery Plan - Annual country assessments"[2]. This recommendation translates the principles of the European Economic Recovery Plan into specific policy advice for each Member State in the form of updated country-specific recommendations under the Treaty (Art. 99 and 128) issued as in previous years to assess progress accomplished by Member States in implementing the recommendations formulated in the framework of the Lisbon strategy for growth and jobs. It calls on Member States to swiftly implement these recommendations to address the crisis and strengthen the future growth potential of the European economy. According to the Treaty provisions, the recommendations should be endorsed by the European Council and then adopted by the Council.

In support of the above-mentioned recommendation, this Commission paper provides a more detailed overview of progress made with the implementation of the Lisbon Strategy reforms in Member States in 2008.

Given the rapidly changing economic environment, it contains information on reforms taken and progress made until the end of 2008.

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1 COM (2008) 800

2 COM (2009) 34

GREECE

OVERVIEW OF PROGRESS

PART I: GENERAL ASSESSMENT

1. The Greek National Reform Programme (NRP) present the policy response to the key challenges. Notable progress has been achieved in the transposition of internal market legislation. Greece has achieved a high earmarking of Structural Funds in support of the Lisbon Strategy. The Structural Funds strongly support the above priorities. However the pace of implementation of growth oriented investment projects co-financed by the Structural Funds is slow.

2. The Greek NRP outlines a series of policies responding to the Council recommendations and points to watch and underlines the main policy priorities for the period 2008-2010. These include the continuation of efforts to strengthen the financial and long-term sustainability of the economy, an increase of productivity through the implementation of structural reforms, the improvement of the business environment and an increase in employment participation.

3. Consultation on the NRP at the level of the central government and the main social partners appears to be good. A specific committee for monitoring and coordinating the NRP has been created, with the participation of all relevant services, social partners and NGOs. Attention is put on the monitoring and evaluation of implementation of reforms in the context of the Structural Funds.

4. In the light of the following assessment Greece should pay particular attention to the country-specific recommendations presented in the recommendation for a Council recommendation COM(2009)34. Alongside this, the following challenges also remain important: one-stop-shops and start-up times, competition in professional services, solid and water waste management, female participation in employment, and a coherent active ageing strategy.

MACRO-ECONOMIC POLICIES

5. Greece faces a number of structural challenges potentially affecting its competitiveness. Of particular importance is to address positive unit labour cost and inflation differentials with the euro area that are affecting competitiveness and widening the current account deficit. The general government deficit remains too high and the gross level of debt remains amongst the highest in the EU. Persistent fiscal imbalances, inflationary pressures, and worsening competitiveness largely lie behind the mounting external imbalances, which are expected to widen further in the medium term.

6. The Council recommended that Greece pursued fiscal consolidation and debt reduction, and proceeded rapidly with the implementation of the pension reform, with a view to improving long-term fiscal sustainability. The general government deficit in 2007 was 3.5% of GDP, considerably above the budgetary target of 2.4% of GDP. This marks an end to the fiscal consolidation that began in 2004. The

absence of an effective control of primary expenditure, along with the low quality of the fiscal adjustment observed in recent years (which has been basically based on revenue-enhancing measures) entails risks for the sustainability of the fiscal adjustment. For 2008, the budget law projected a deficit target of 1.6% of GDP but significant expenditure overruns and revenue shortfalls have meant an upward revision of the official target deficit to 2.5% of GDP. Government gross debt, which reached 95% of GDP in 2007, is expected to decrease only by 'Y % of GDP in 2008. Greece has adopted important legislation to reform pensions in 2008 but the scope and the progress in implementation have been limited and may therefore need to look into additional measures to improve the long-term sustainability of public finances.

7. Greece was also asked to focus on the containment of inflationary pressures and the current account deficit. Persistent high inflation in Greece is mainly associated with the structural weaknesses of both product and labour markets. The limited impact of measures recently taken suggests that better targeted measures are needed to improve the functioning of product and labour markets, which should contain inflationary pressures and address external imbalances.

8. A major reform of the budgetary process introducing a system of program-based budgeting is gradually being implemented. Even though it is expected to contribute positively to the transparency and efficiency of the budgetary process, it does not tackle structural shortcomings both in terms of the preparation of the budget and its execution including in particular expenditure control.

MICRO-ECONOMIC POLICIES

9. Greece's micro-economic priorities are to generate higher productivity growth through addressing structural weaknesses of public administration, to reform product markets, generate higher levels of investment in human capital and knowledge, improve the business environment, enhance competition by further opening product markets, and reinforce export performance and competitiveness.

10. The Council recommended Greece to modernise its public administration by building up effective regulatory, control and enforcement capacities, and by ensuring an effective use of Structural Funds. A specific Structural Funds Operational Programme will support better regulation in line ministries, including the introduction of an integrated impact assessment system and actions to reduce administrative burdens by 25% by 2013. The strategy put in place prioritises the improvement of the regulatory environment of business. However, the simplification of existing legislation should receive more attention.

11. The Council also highlighted the need to focus on investment in R&D, the transposition of internal market legislation, progress towards the 2006 Spring European Council SME policy targets, strengthening competition in the area of professional services and protecting the environment by prioritising effective solid and water waste management and curbing greenhouse gas emissions. An investment in R&D, especially from the business sector, remains low with the levels of R&D investment as a proportion of GDP stagnating since 1999. The set-up of research policy has been redesigned and the actions supporting innovation have been updated for the new programming period. Their effectiveness can only be assessed in the medium term and may also depend on the general business environment. The

implementation of internal market legislation has improved markedly. In a quest to improve the business environment, the start-up of companies has been made easier for limited liability corporations, but some key measures of the NRP have not yet been implemented (for example the creation of the General Commercial Registry and of one-stop-shops for businesses, completing sector-specific land use and planning frameworks). There was no progress regarding competition in professional services where regulations remain among the most restrictive in the EU. Improvements in this area, and in other services sectors, are expected to flow from the implementation of the Services Directive.

12. Waste management is still weak, and efforts to address this are ongoing with the support of Structural Funds. The policy response in the past has been rather weak as illustrated by the number of cases to the European Court of Justice. Green house gas emissions returned to a more sustainable path in 2006 and according to new projections Greece will meet its Kyoto target. Complex licensing procedures and local resistance are slowing down investment in renewable energy sources. However, the energy intensity of the economy is on a downward trend and close to the EU average.

13. Efforts to improve the energy regulatory framework continue. High-voltage retail tariffs were liberalised in 2008 and the entry of new providers is expected shortly. Gas market liberalisation remains incomplete. In telecommunications, 2007 was the first year of the full application of the Community legal framework. A detailed programme of actions for 2008-2009 should complete the liberalisation in all market segments. Competition and lower prices have led to a fast rise in broadband penetration, facilitated by the government's Digital Strategy initiatives. The development of energy infrastructure, including cross-border links, is of high policy priority and pursued with certain success. Transport infrastructure will continue to absorb a high percentage of public investment. Particular emphasis is given to further developing private-public partnerships for an increasing number of infrastructure projects.

EMPLOYMENT POLICIES

14. The Greek labour market is characterized by low employment, especially for women and older workers and a very high long term unemployment and youth unemployment. The main challenge for Greece is to improve the labour market participation and employability of women and various disadvantaged groups. A further challenge is to enhance the efficiency of the labour market by better matching people to jobs and to increase the labour market relevance of education and training.

15. Greece addresses all four flexicurity components, whilst not explicitly defining a national pathway or outlining an integrated approach. Policy focuses on active labour market policies and skills upgrading, although spending on active policies and coverage remain insufficient. Implementation of educational and lifelong learning reforms is slow and a review of labour law is needed. Social security contributions remain high.

16. The Council recommended Greece to focus on, employment protection, the tax burden on labour, active labour market policies and undeclared work. Although the institutional framework for flexible forms of employment is largely in place, these

appear to be unattractive to both employers and employees. An across-the-board review of labour law is missing. In addressing the issue of efficiency of active labour market policies, efforts have focused on integrating services (the creation of one-stop-shops), the delivery of services at local level and the targeting of particular groups. Greece must increase spending for active measures and establish cooperation between public and private sector institutions. Impact evaluation of activities need to receive greater prominence.

17. There has been some progress with regard to reducing the tax burden on labour. Attention should now be given to lifting the burden of high social protection contributions, particularly for the low waged. With regard to undeclared employment, the focus was put on combating tax evasion and on avoidance. The issue needs to be addressed more effectively including by strengthening administrative capacity. Implementation of already announced measures merits higher priority.

18. Greece was also recommended to accelerate the implementation of reforms on education and training. Despite high youth educational attainment, the youth unemployment rate remains three times higher than the average. Greece must proceed faster with the implementation of reforms in order to improve the quality of education at all levels and improve its labour market relevance. Key areas include increasing public spending on education, combating the fragmented governance of the education and training systems, increasing training opportunities for adults, and the implementation of tertiary education reforms. The full and rapid activation of a national system to link education and training with employment is also of fundamental importance. The absence of a system of official recognition of non-formal and informal learning constitutes another major shortcoming. Furthermore, Greece should speed up the implementation of the lifelong learning framework law.

19. The Council also asked Greece to focus on encouraging female employment, reducing early school leaving and putting in place a comprehensive support for active ageing. Additional teaching support programmes and centres for diagnosis of emerging needs have operated, and the number of pupils leaving school early shows a decrease. In addition, the gender employment gap is narrowing, but boosting employment opportunities for women still remains a great policy challenge. An array of initiatives has been implemented, strongly supported by the European Social Fund. The introduction of an additional mandatory year of pre-school education and care is important but more comprehensive action is necessary to better reconcile work and family life. The new law reforming the pension system introduces incentives for working longer. The NRP also outlines measures to support the employment and employability of older persons, but further action is needed in terms of activation policies for older persons, namely to provide them with more employment and training opportunities.

20. The establishment of a National Fund for Social Cohesion is an important policy initiative in alleviating poverty in Greece. The fund will support those persons on low salaries and pensions. The full activation of the fund is essential.

IP/09/146

Brussels, 28 January 2009

Commission adopts Lisbon Strategy recommendations to build a lasting recovery

The Commission has adopted "country chapters" and recommendations under the Lisbon Growth and Jobs Strategy. These will also help ensure the European Economic Recovery Plan (see IP/08/1771) is implemented in a way that builds for the future as well as responding to the economic crisis. The country chapters analyse progress in each Member State in implementing the Growth and Jobs Strategy, taking account of the crisis. They include proposals for formal recommendations for endorsement by the Spring European Council. The Commission has also adopted reports on the overall implementation of the Lisbon Strategy in the macro and micro-economic and employment fields.

Commission President José Manuel Barroso said: "The €200 billion targeted fiscal stimulus proposed by the Commission and agreed in December is the crucial short-term energy boost our economies need to fight the crisis while also investing in the future. But we need a comprehensive medium-term fitness plan and the Lisbon Strategy provides that. We face difficult times and we will not emerge from them overnight. But Member States must agree and implement the much-needed structural reforms set out in today's recommendations, to pave the way for a gradual but lasting return to creating growth and jobs, within a greener and fairer economy."

To take account of the exceptional situation, this year's country chapters are shorter and more focused than in previous years. They include proposals for country specific recommendations for endorsement by the Spring European Council and subsequent formal adoption by the Council. The Recommendations have legal force. They mean in practice that Member States will, as in previous years agree collectively, based on the Commission's proposal, on the areas each Member State should address with the highest priority, to build up the strength of its economy in the medium-term.

The country chapters are accompanied by reports on the overall implementation of the strategy, which reflect the impact of the financial crisis on the real economy. While the picture that emerges is sobering, there are some positive points. All Member States are taking constructive action to counter the crisis. In the micro-economic area, for example, most are introducing measures to help SMEs seize the opportunities offered by the low carbon, low resource use economy and to facilitate their access to financing. Policies aimed at helping those who lose their jobs back into work as quickly as possible are essential to minimise the labour market impact of the crisis.

Taken together with the measures already put forward in the Recovery Plan and with the report on the Community Lisbon programme adopted on 16 December, the country chapters and the accompanying reports constitute the full Lisbon Strategy Annual Progress Report.

Some more detailed country specific analysis underpinning the conclusions and recommendations is published in an accompanying staff working paper.

The full texts adopted will be available, along with all background information on the Lisbon Growth and Jobs Strategy, at:

http://ec.europa.eu/growthandjobs/index_en.htm