

THE TRUTH ABOUT GREECE

A GREEK TRAGEDY AND A EUROPEAN DRAMA



Institute for Regulatory
Policy Research



THE SITUATION

THE SITUATION (1)



3 adjustment programs/ MoUs

12 reviews by EC and IMF (6 + 5 + 1)

220 billion euro paid

THE SITUATION (2)

YET THE RECESSION AND THE CRISIS PERSIST FOR THE 6TH YEAR...

		
DEBT	179 %	93.5 %
GROWTH	0 %	1.6 %
UNEMPLOYMENT	25.1 %	11%

THE WRONG CRISIS RESPONSE

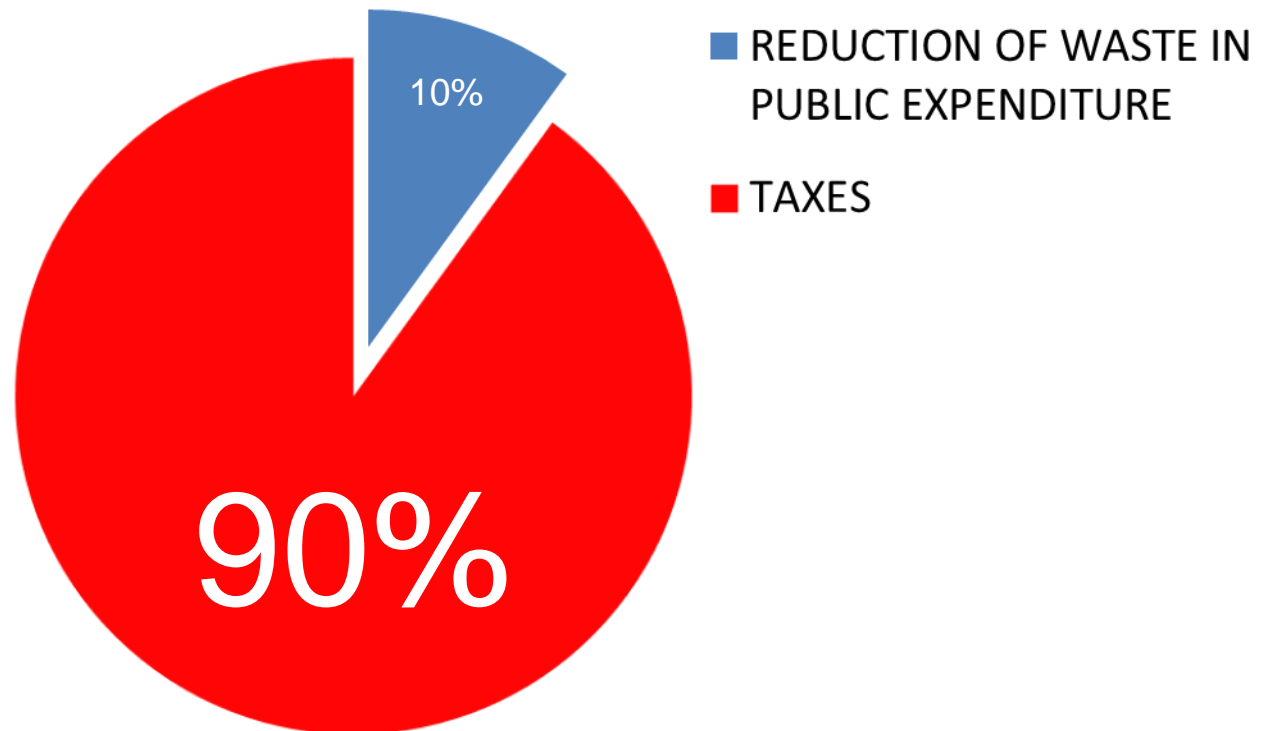
THE WRONG CRISIS RESPONSE (1)

THE FOCUS IS CURRENTLY ON THE SYMPTOMS	THE FOCUS SHOULD BE ON THE ROOT CAUSES
FISCAL AND PUBLIC DEBT	POOR GOVERNANCE & INEFFICIENT ADMINISTRATION
FINANCIAL INSTABILITY	CLIENTELISM
NO PRIMARY SURPLUS	WEAK INSTITUTIONS
IMPOSSIBLE TO REPAY LOANS	LACK OF COMPETITIVENESS

The Greek crisis is only perceived as a crisis
of the economic indicators
but it is essentially a crisis
of the growth model and of the institutions

THE WRONG CRISIS RESPONSE (2)

Imbalance in the budget adjustment is killing the economy and putting the whole burden on the shoulders of citizens and SMEs



THE WRONG CRISIS RESPONSE (3)

THE MEASURES UNDERTAKEN HAVE LIMITED EFFECT

- (1) LOW COMPLIANCE RATE. IMPLEMENTATION OF THE FISCAL MEASURES AND NOT OF THE REFORMS
- (2) REVERSAL OF PAST REFORMS
- (3) GOVERNMENT INFIGHTING
- (4) LACK OF TRANSPARENCY
- (5) ATTACKS ON INDEPENDENT AUTHORITIES
- (6) CONTROL OF THE ADMINISTRATION BY POLITICAL PARTIES

PROBLEM (1a)

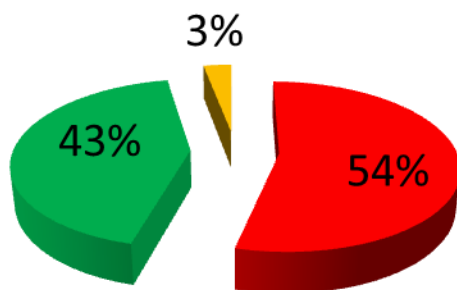
LOW COMPLIANCE RATE

(LOTS OF PAPER, LITTLE ACTION)

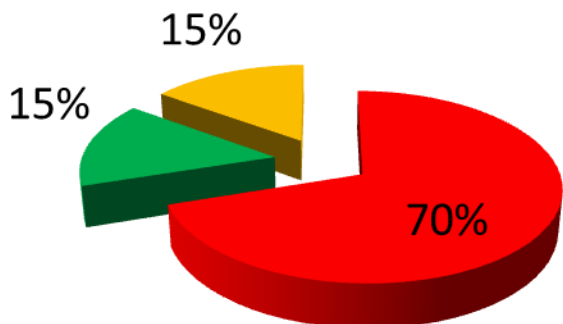
COMPLIANCE RATE

(MAY 22, 2016)

NOMINAL



REAL



Not
observed

Social security reform, public procurement transparency, Justice reform (reduce time, e-justice,...), combating corporate tax fraud, market reforms, fair competition (cartels), economic crimes, declaration of individual wealth, actions based cost system for hospitals, reform of public administration.

Partially
observed

Energy market liberalization, improvement of tax collection, new civil procedure code, diminish tax exemptions of ship owners, independent authority for collection of government revenue, reform of authorisation of investments, privatisation of the company for the transmission of energy

Observed

(For more details, cf. annex 1a-1d)

PROBLEM (1b)

LOW COMPLIANCE RATE


Why?



(1) Because the monitoring is deficient

(2) Monitoring is currently politically driven:

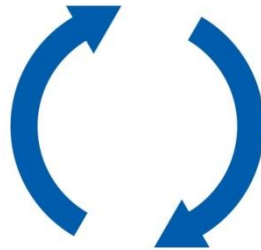
 turn a blind eye to prevent an open fight with Greece & disturb the financial markets

 Unwillingness to implement reform to shield special interests

(3) Monitoring should be an objective fact finding mission

PROBLEM (2)

REVERSAL OF PAST REFORMS



Reforms have either extensive conditional clauses or are reversed by later decisions

Examples:

- **Law 4172/2013** (Income Tax Code) has been amended 18 times in 17 months
- **Law 4174/2013** (Tax Procedure Code) has been amended 10 times in 18 months

PROBLEM (3)

GOVERNMENT INFIGHTING



The Greek government takes decisions that cancel or neutralize the initial desired outcome

Examples:

- More competitiveness needed **versus** corporate tax raised from 26 to 29 pct.
- Reducing admin. burden **versus** 9 new tax measures in 2015
- Social benefits need to be more targeted **versus** **Law 4368/2016** doing the opposite:
 - Special allowance for garbage collectors
 - Recruiting of extra staff at the municipalities

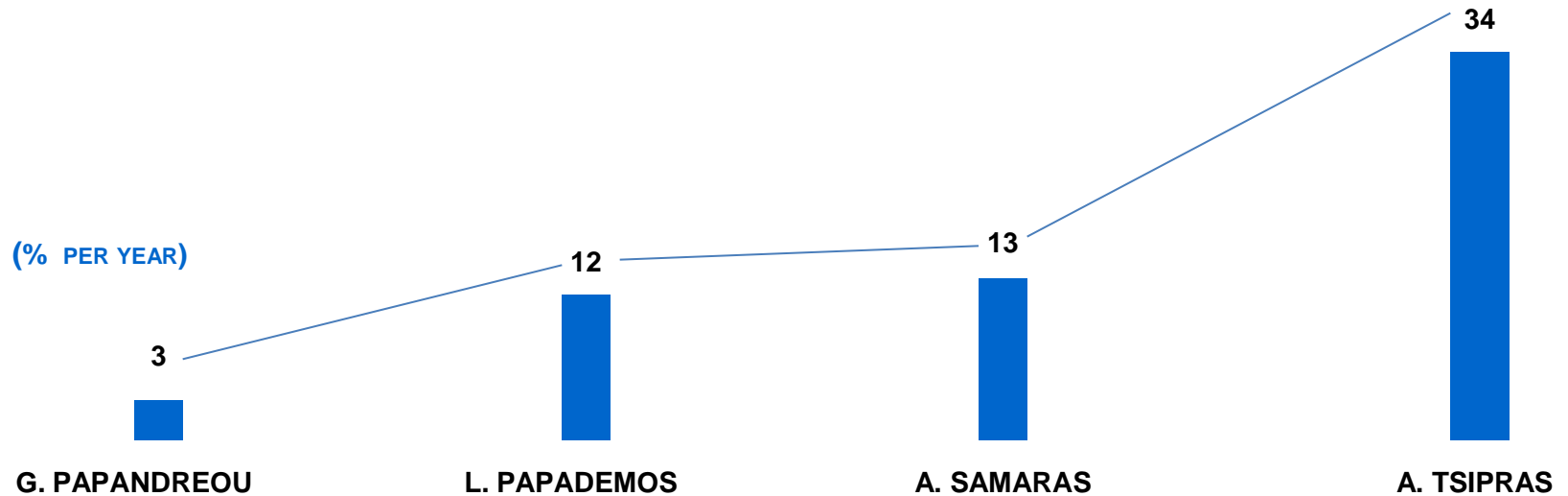
(For more details, cf. annex 3a-3b)

PROBLEM (4)

LACK OF TRANSPARENCY

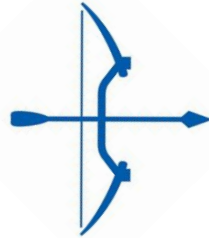


Governing by executive order has become the rule



PROBLEM (5)

ATTACKS ON INDEPENDENT AUTHORITIES



The government attacks independent authorities that are protected by the Constitution and transfers their competences to the ministers

- 4 out of 9 independent authorities do not have a president
- The term of office for 50 of 86 members of their boards has expired

PROBLEM (6)

CONTROL OF THE ADMINISTRATION BY POLITICAL PARTIES



As with previous governments, this current one continues to exercise political control on public administration

Examples:

- The laws in 'de-politisation' of the public administration were changed at the last moment reversing the entire purpose of them and leaving secretary generals of ministries coming from political parties.
- For the last two years, no new contracts for public infrastructure have been announced on the designated website

THE 3rd ADJUSTMENT PROGRAM

More of the same

THE 3rd ADJUSTMENT PROGRAM



86 BILLION EURO

3 YEAR IMPLEMENTATION HORIZON
(2015-2018)

SOME GOOD '**NEW**' OBJECTIVES
(ENHANCE COMPETITIVENESS & MODERNIZE PUBLIC ADMINISTRATION)

THE 3rd ADJUSTMENT PROGRAM



4 REASONS WHY IT WILL GO WRONG AGAIN

- 1) **No focus on better governance,**
more efficient institutions and especially getting rid of clientelism that undermines the economy
- 2) **Fiscal & financial measures that only lead to hyper-taxation,**
strangling the economy
- 3) **No simple action strategy.**
Reform clusters are so intertwined and complex that in the end nothing happens at all
- 4) **One size fits all IMF solutions**
Proved wrong again and again as they do not offer solutions to specific Greek problems

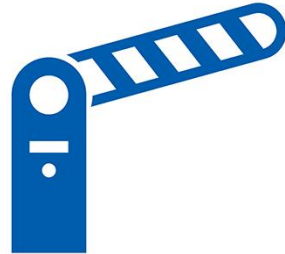
ANOTHER WAY FOR GREECE, ANOTHER APPROACH FOR EUROPE

ANOTHER APPROACH

- (1) We need to **get rid of the old style MoUs** that focus on the symptoms instead of the root cause of the problems
- (2) We need a new **joint Greece-EU plan** to drastically **modernise** the country
- (3) The core of this plan are **4 actions** to improve **the business environment** and **kick-start** the economy, in order to attract foreign internal investment
- (4) A new governance for the eurozone

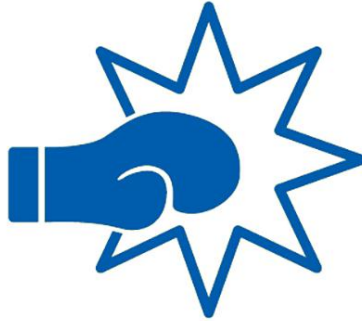
ACTION (1)

REMOVE BARRIERS & INVEST IN GROWTH



- (1) Remove the many legal, regulatory and administrative barriers in Greece's products & service markets.
(e.g. real opening of closed professions)
- (2) Creating a more investment friendly climate for private investments
- (3) Increase EFSI financing for Greek start-ups and SMEs
(only one EFSI deal signed so far in Greece)
- (4) Targeted tax cuts for low and middle incomes and especially SMEs

ACTION (2)
COMBAT CLIENTELISM
(Reform of the public administration)



- (1) Depoliticize the administration & introduce an evaluation for civil servants
- (2) Transparent and uniform rules for borrowing for parties and the media
- (3) Make the transition to e-government (improves transparency and accountability)

ACTION (3)

MODERNIZE THE JUSTICE SYSTEM



- (1) Digitalise the system
- (2) Implement codification and modernisation of the legal framework
- (3) Select the High Court judges without partisan criteria
- (4) Reform and strengthen law enforcement in general, especially property and investor protection laws

ACTION (4)

REFORM TAX COLLECTION



- (1) Stabilise the tax legislation
- (2) Strengthen the % of trade done by credit and bank cards
- (3) Enforce electronic networking of all the controlling authorities and total implementation of the electronic invoice system

ANNEXES



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Annex 1a

DETAILS COMPLIANCE RATE

(problem 1)

A/A	Conditionality	DEADLINE	OBJECTIVE	OFFICIAL REVIEW STATUS	OUTCOME APPROACH STATUS
1	Submission of technical assistance plan	30/9/2015	to modernise public administration	OBSERVED	PARTIALLY EFFECTIVE
2	Reduce the price of non-patent medicins	30/9/2015	fiscal sustainability	OBSERVED	NO EFFECT
3	increase in shipping taxes (tonnage)	31/10/2015	fiscal sustainability	OBSERVED	PARTIALLY EFFECTIVE
4	New law for tax evasion (change 2523/97)	31/10/2015	fiscal sustainability	OBSERVED	PARTIAL EFFECTIVE
5	New higher limits for returns for 2015 concerning medical tests and medicins	30/9/2015	fiscal sustainability	OBSERVED	PARTIALLY EFFECTIVE
6	Activation of the spatial planning committee	30/9/2015	Competitiveness and growth	OBSERVED	NO EFFECT
7	New rules for energy market	30/9/2015	Competitiveness and growth	OBSERVED	NO EFFECT
8	New rules for Gas market	30/9/2015	Competitiveness and growth	OBSERVED	NO EFFECT
9	Change the policy for electricity prices	30/9/2015	Competitiveness and growth	OBSERVED	PARTIALLY EFFECTIVE
10	Road map towards a new Civil Procedure Code	30/9/2015	State and public administration	OBSERVED	PARTIALLY EFFECTIVE
11	broaden the data acquisition of the national statistics agency	30/9/2015	fiscal sustainability	OBSERVED	NO EFFECT
12	to enhance General Revenue Secretariat	31/10/2015	fiscal sustainability	OBSERVED	PARTIALLY EFFECTIVE

Annex 1b

DETAILS COMPLIANCE RATE

(problem 1)

129 MoU reforms not observed

- Social security Reform
- Creation of Fiscal Council
- Delayed payments to public sector
- Public Procurement Transparency
- Minimum Secured Income
- Combat contraband
- Justice Reform (reduce time, e-justice, specific Courts)
- Control of Enterprises combating tax evasion
- Market reform
- Fair Competition (cartel, tax evasion, preferential status)
- Land usage
- Energy Reform
- Combat economic crime
- Declarations of individual wealth
- Bankruptcy law
- Price of genome medicines
- Restructuring of the prescriptions of medicines
- Action based cost system for hospitals
- Join Info systems monitoring the hiring of employees
 - with Taxation and Social systems (crosschecking)
- Security
- Encoding of Laws concerning Employment
- Improve plan for Exports
- Strategy for competitiveness targeting EU funds, agricultural
 - products, cooperatives, young farmers, best agri practices,
 - conformity to EU standards
 - RES, new strategy
- Reform on public administration
- Strategy for growth
- Scanners to international ports
- Encoding of Laws

Annex 1c

DETAILS COMPLIANCE RATE

(problem 1)

47 reforms in MoU nominally observed but not really implemented

- Lower the price of medicines with expired licence
- Define rules for Regulatory Port Authorities
- Energy market liberalization
- Implementation of OECD toolkit 1
- Create and define Government Coordination Secretariat
- Improvement of tax collection mechanism
- Cooperation with private sector in health, lower billions owned
- Implementation of the new Civil Procedure Code
- Diminish the tax exemptions of ship owners
- Independent Authority for collection of Government Revenue
- Plan for the reform of Authorization of Investments
- Support 150.000 long time unemployed
- Privatization of Company for the transmission of Energy

Annex 1d

NOMINAL COMPLIANCE RATE

(problem 1)

	Description
MoU Conditionality	<i>“Greek government in cooperation with the Bank of Greece and the private sector, will deliver a cost-estimated plan to promote and facilitate the use of electronic payments and reducing the use of cash, with implementation, starting from March 2016”</i>
“Nominal Compliance”	The plan was delivered (October 2015) and foresees that the implementation phase starts in March 2015
Finding	According to Decision No 1144332/9-11-2015 (November 2015) of the Deputy Secretary of Public Revenue <i>“the tenure of the Task Force which was in charge of the drafting of the plan to promote and facilitate the use of electronic payments is extended from 12.31.2015 to 31.12.2016, in order to complete the tasks assigned”</i>
Analysis	The plan was drafted hastily and roughly in order to comply with the conditionality. It suffers key deficiencies and gaps that render the implementation from March 2016 impossible. The Task Force which was assigned will need another year to full elaborate the plan in order for the implementation to become feasible. In reality, the plan that has been delivered will be need to be revised and implementation is postponed for at least one year.
Result/outcome	Although the plan was formally delivered within the schedule and the relevant conditionality was met, in reality nothing has changed. The “ratio” of the conditionality was to enhance electronic payments and reduce the use of cash in order to fight tax evasion. What we have is just a plan, which describes actions that are not going to take place

Annex 2

REVERSAL OF LEGISLATION (problem 2)

Purpose	Conditionality	Action	Official review Status (7/13)	Assessment (12/14)
To introduce a simple, stable and fair tax system	Adopt legislation to introduce a new Income Tax Code that will simplify the existing law, increase its transparency and remove ambiguities, whilst allowing easier administration, encouraging tax compliance and ensuring more robust revenue throughout the cycle	Law 4172/2013 (Income Tax Code)	Observed (3 rd review July 2013)	Law 4172/2013 (Income Tax Code) was amended 18 times over 17 months (July 2013-December 2014). Of the 72 articles related to income tax, 41 articles have been amended from July 2013 to the present, for a total of 59 amendments.
	Introduce legislation to Parliament for a new Tax Procedures Code (TPC) to enter into force on 1 January 2014. The new TPC consolidates and streamlines provisions existing in current legislation and fills legislative gaps. This code should reduce the costs of administration and compliance, and incorporate procedural reforms in all major administrative areas that are necessary to support modern tax administration (e.g. tax filing, audit and penalties, enforcement powers and debt collection).	Law 4174/2013 (Tax Procedure Code)	Observed (3 rd review July 2013)	Law 4174/2013 (Tax Procedure Code) was amended 10 times within 18 months (7/13 -12/14). Of the 67 articles related to tax procedures 50 articles have been amended from July 2013 to the present, for a total of 60 amendments. 34 circulars (secondary legislations) have also been published concerning the law.

Annex 3a

GOVERNMENT INFIGHTING (problem 3)

Conditionality	Official review status	ALTERNATIVE APPROACH STATUS
To enhance General Revenue Secretariat	Observed	Partially effective
<p>Government will adopt legislation for the transfer to the General Revenue Secretariat of all powers, responsibilities and staff of the Financial Crime Agency that are related to taxation and customs; all non-evaluated audit reports carried out by the Financial Crime Agency be considered detailed briefing notes on the tax administration.</p>	<p>Article 2 of L. 4336/2015, Ministerial decision AN.ΥΠ.ΟΙΚ.0002935 ΕΞ.2015 and AN.ΥΠ.ΟΙΚ.0003681 ΕΞ 2015</p>	<p>There were over 45.000 cases pending. Eventually only 3.947 cases were transferred to General Revenue Secretariat for review As regards the staff 500 out of 750 auditors Financial Crime were transferred. But selection criteria were set by the Minister although the General Revenue Secretary is in charge for the selection of the staff. based on a series of criteria set by the Minister. These criteria were general and not specialized, due to time constraints. Overall, the outcome of the activities performed in order to comply with the conditionality did not fully respond to the ratio of the obligation (implementation gap). In addition, there were no provisions as to how Financial Crime Agency staff and resources will be replaced in order to continue dealing with serious cases of economic crimes. As fighting corruption is a major target in the context of modernizing public administration the weakening of Financial Crime Agency has considerable cost. The way this action was implemented lead to serious side effects (SIDE EFFECT: STATE AND PUBLIC ADMINISTRATION / FIGHT CORRUPTION). Overall, although officially observed, the action did not serve its initial purpose and did not produce the desired results.</p>

Annex 3b

GOVERNMENT INFIGHTING (problem 3)

“Impact of other Government activities”

Government introduces L. 4368/2016 *"Measures to accelerate government work and other provisions"*. This Law is not related to the implementation of MoU conditionalities

L.4368/2016 foresees ...	Which contradicts with MoU conditionalities foreseeing that...
All disabled, long-term unemployed and families with more than 3 children are exempted from municipal taxes	Social allowances and benefits system should become more targeted, unified and cost effective and linked with the Guaranteed Minimum Income (GMI)
Recruitment of staff with certain qualifications in municipalities.	Public sector recruitment is frozen until 31/12/2016. Workforce planning for 2015-2018 has to be submitted in the context of Medium Term Fiscal Strategy with a view to reduce public sector wage bill in line with the 1/5 hiring restriction rule
Special provisions for transferring Municipality employees in Public Sector entities. Decisions for mobility of employees among municipalities are re-activated (exemptions for regular mobility procedure that is foreseen in Civil Service Code)	The authorities will introduce a new unified and permanent mobility system. The system will promote the use of job descriptions and will be linked to an electronic database containing all vacancies. The final decision of staff mobility will be received by the service concerned. This way the resource allocation and staffing throughout the general government sector we will be optimized
Special allowance for dangerous and unhealthy work for municipality staff dealing with garbage collection	Authorities will abolish all special allowances and introduce a unified remuneration system for public sector employees.

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