

# Greece

<b>Prime Minister:</b> Konstandinos KARAMANLIS	<b>Population</b> (2007 est.): 11,171,740
<b>Finance Minister:</b> Yeorgos VOULGARAKIS	<b>GDP</b> (2007): €228.9 billion
<b>Central Bank Governor:</b> Nikos GARGANAS	<b>GDP/capita:</b> €21700
<b>Joined the EU:</b> 1981	<b>GDP by sector:</b>
<b>Adopted the Euro:</b> 2002	Agriculture 3.6%
<b>Currency prior to Euro:</b> Drachma	Industry 24.8%
	Services 71.6%
	<b>Life Expectancy</b> (women / men): 82 / 77
	<b>2005      2006      2007      2008*</b>
<b>Real GDP growth rate</b>	2.9%    4.5%    4.0%    3.1%
<b>Inflation</b>	3.5%    3.3%    3.0%    4.4%
<b>Unemployment Rate</b>	9.9%    8.9%    8.3%    9.0%

\* forecast

## Greece in the EU and the Euro Area

Greece became a full member of the European Union in 1981 and adopted the euro as its new common currency in January 2002, replacing the drachma. Joining the euro helped provide better access to competitive rates on loans and Eurobond markets, all of which helped boost consumer spending, dampen inflation risks and foster an elevated level of economic growth. In addition, structural funds (a form of EU finance assistance to poorer countries and regions) have helped finance major public works and economic development projects, all of which have helped improve the standard of living of the population overall.

## Economic Overview of Greece

Greece has experienced relatively strong GDP growth for several years, averaging at 3.75% between 1995 and 2005 and rising to around 4% in 2006 and 2007. This growth has been supported by solid gains in employment, substantial real wage increases, low interest rates, and rapid credit expansion. The external sector (net exports) has been a drag on growth in recent years, as Greece imported more than it exported. Domestic demand has been a major driver of growth.

There has been significant growth in particular in the service sector, most notably in tourism. The public sector accounts for about 40% of GDP. Immigrants make up nearly one-fifth of the work force, mainly in agricultural and unskilled jobs. The substantial economic growth trends in general have helped reduce unemployment and narrow the gap in living standards between Greece and the rest of the EU. However, the level of government debt, at 94 percent of GDP, remains high, due partly to infrastructure spending related to the 2004 Athens Olympic Games. Private sector credit has risen, rapidly driving consumer spending up, but household indebtedness

is still relatively low. Inflationary pressures and rising labor costs have resulted in a steady deterioration in competitiveness, contributing to a large current account deficit of 13.9 percent of GDP. Although still benefiting from continued employment and wage growth, private consumption is expected to slow, in the context of less confidence and financial uncertainties.

The Executive Board of the IMF<sup>1</sup> considered that the main challenges facing the Greek authorities are related to the weaker external environment and the crisis in global financial conditions. Further reforms need to be undertaken in the fields of product and labor markets as key to sustaining medium-term growth and strengthening international competitiveness. Progress has already been made in product market reform, to press ahead with further measures. Areas for action include further extension of simplified business licensing procedures, privatization of infrastructure facilities, and strengthened competition in the network industries and the transport sector.

### Some Economic Challenges Facing Greece

Over the past decade, the income gap with the best performing OECD economies has been narrowing rapidly, but the scope to improve labor utilization (i.e. to increase employment) and productivity performance remains large.<sup>2</sup>

#### *Labour Participation among Older Workers and Gender Imbalances in Unemployment*

Despite increasing employment levels, the Greek economy still remains stifled by chronic difficulties in labour participation, particularly among female and older workers. With regard to the latter, the state allows for retirement after 37 years in work, regardless of age, and there are also a number of lenient channels for early retirement based on disability in "arduous" professions, which are defined broadly. Furthermore, there is only a tenuous link between the pension benefits received once in retirement and the pension contributions made while in work. There is thus little in the way of incentive to encourage people to remain in employment for longer to build up a superior level of pension. Thus far, the government has announced a consultation process on the long term sustainability of the system and the arduous-work clause to be examined, but a great deal more is required. In particular it is important to link pension benefits to lifetime contributions and implement stricter eligibility criteria for disability pensions. With regard to the large gender/age imbalances in unemployment, Greek authorities need to rebalance employment protection for different occupations, and, in particular, reduce the high severance costs for white-collar workers and bring it into line with those for blue-collar workers. Unemployment rates of youth remain high as well, and labour market entry still needs to be facilitated, which could be achieved by reducing the minimum cost of labour through setting of sub-minimum wages.

#### *Improve the efficiency of the higher education system*

The Greek higher education system lacks efficiency and is still below international standards. To overcome this challenge and make higher education in Greece more efficient it is recommended that performance-based funding be introduced and the establishment of private universities be allowed. Further, limiting the study duration and introducing tuition fees accompanied by a loan scheme with income-contingent repayment could facilitate the competitiveness of the higher education system in Greece. So far the government has enacted a higher education reform which includes a series of measures that will improve the governance of universities, ensure independent evaluation, limit the duration of academic study and raise the provision of student loans.

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<sup>1</sup> International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2008/pn0849.htm> 10/13/2008

<sup>2</sup> "Economic Reform: Going for Growth." OECD. 2008