RECOMMENDATIONS

COUNCIL RECOMMENDATION TO GREECE

of 16 February 2010

with a view to ending the inconsistency with the broad guidelines of the economic policies in Greece and removing the risk of jeopardising the proper functioning of the economic and monetary union

(2010/190/EU)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(4) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) The macroeconomic and budgetary situation has deteriorated markedly in Greece over the last year and Greek public finances have worsened much beyond what could have been expected as a result of the downturn. These developments are largely due to national factors that have developed over the longer term, resulting in a deterioration of the net lending position of the Greek economy and high and persistent external imbalances, mirroring large competitiveness losses and a marked deterioration of the fiscal position.

(2) National policies in terms of the conduct of fiscal policy, the efficiency of public administration and lack of structural reforms (where indicators show that Greece ranks poorly compared with international benchmarks) have contributed to poor economic and fiscal performance.

(3) The current situation poses major challenges for the long-term sustainability of the Greek economy, and the economic and fiscal situation may have negative spill-over on other euro-area members, as evidenced by movements in the financial spreads of a number of Member States. The current situation also risks jeopardising the proper functioning of the economic and monetary union.

(4) The Council and Commission have repeatedly pointed to the longer-term structural problems of the Greek economy in various multilateral surveillance exercises. These include budgetary surveillance in the framework of the Stability and Growth Pact and the Lisbon Strategy in which the Broad Guidelines of the Economic Policies [1], provide a general reference framework for structural reform in the Union and in the euro area. These include recommendations to Member States to respect their medium-term budgetary objectives and to take effective action in order to ensure a prompt correction of excessive deficits, as well as to aim at correcting the current account deficit by implementing structural reforms, boosting external competitiveness and contributing to their correction via fiscal policies.

(5) In this context, reflecting the deep structural problems in the Greek economy covering fiscal, labour and product market issues, the Council, in its Recommendation of 25 June 2009 [2], noted that for Greece it is 'imperative to intensify efforts to address the macro-economic imbalances and structural weaknesses of the Greek economy' and directed country-specific recommendations to Greece, including that it should continue with fiscal consolidation; increase competition in professional services; reform to increase investments in R&D; use structural funds more efficiently; reform public administration and take a broad range of labour market measures within an integrated flexicurity approach. At the same time, the Council recommended that Greece, as a member of the euro area, secure the sustainability and improve the quality of public finances, modernise public administration and implement the Union's common principles of flexicurity.

(6) Greece's economic and budgetary policies are not in line with the country-specific recommendations issued under the Broad Guidelines of the Economic Policies, nor the recommendations addressed to Member States forming part of the euro area, set out in the Council Recommendation of 14 May 2008 on the broad economic policy guidelines for the Member States and the Community.

(1) http://ec.europa.eu/economy_finance/structural_reforms/growth_jobs/guidelines/index_en.htm

(2) Council Recommendation of 25 June 2009 on the 2009 update of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies (OJ L 183, 15.7.2009, p. 1).

(7) On 15 January 2010, Greece submitted the 2010 update of its stability programme, which contains objectives in the budgetary area for the period up to 2013 and which should be read in conjunction with the budget for 2010 adopted by the Greek Parliament on 23 December 2009; the Council delivered an opinion on 16 February 2010 on the 2010 update of the Greek stability programme in accordance with Article 5(3) of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1]. On 16 February 2010, the Council also adopted a Decision under Article 126(9) TFEU giving notice to Greece to take measures for the deficit reduction judged necessary in order to remedy the situation of excessive deficit [2] (hereinafter 'the Council Decision of 16 February 2010').

(8) The proper functioning of the coordination of economic policies in the euro area requires a timely use of instruments available under Article 121 TFEU. Article 121(4) TFEU establishes that the Commission may address a warning to the Member State concerned and may recommend the Council to make the necessary recommendations to that Member State. Given the gravity of the situation and in order to ensure consistency with the Council Decision of 16 February 2010, it is appropriate that the Council adopt the necessary recommendations. In addition, the Council may, acting on a proposal from the Commission, decide to make its recommendations public.

(9) Although the deterioration in macroeconomic conditions in 2009 has been more pronounced than anticipated by the authorities, public finances have worsened much beyond what could have been expected as a result of the stronger-than-projected downturn. The deterioration is to a large extent the result of budgetary policies implemented by the Greek government. The general government deficit in 2009 is currently estimated at 12,75 % of GDP, compared to a target of 3,75 % of GDP in the January 2009 update of the stability programme.

(10) The 2010 budget was adopted by the Greek Parliament on 23 December 2009 setting a deficit target of 9,1 % of GDP in 2010. In the meantime, the Greek authorities announced the intention to step up fiscal adjustment already in 2010, setting the budgetary target for 2010 at 8,7 % of GDP. The January 2010 update of the stability programme confirmed the revised budgetary target for 2010 at 8,7 % of GDP.

(11) The long-term budgetary impact of ageing on public expenditures is well above the Union average, mainly as a result of a very high projected increase in pension expenditure as a share of GDP over the coming decades. Available indicators, as evidenced in the Commission services' 2009 sustainability report, point to very high risks to the sustainability of public finances, which, in addition to budgetary consolidation, needs to be addressed through the reform of the pension and health care systems. The Greek pension system suffers from several problems, including the fact that it is fragmented in its coverage. Although Greece has one of the highest average benefit ratios in the Union — with a negative impact on incentives to work, as reflected in particular in the low employment rate among older workers — it has one of the highest poverty rates among the elderly. There are also problems with early retirement schemes that provide alternative, but costly, pathways to retirement. The health care system also needs reform, in particular to significantly improve efficiency and management as these have been a cause of recurrent budgetary overruns. Labour market reforms should support the increased labour supply in order to increase the contribution base.

(12) Greece should recover competitiveness losses and address large external imbalances. In this context, in accordance with the Broad Guidelines of the Economic Policies, Greece should aim at correcting the current account deficit 'by implementing structural reforms, boosting external competitiveness and (…) contributing to their correction via fiscal policies'. To this end, the Greek authorities should implement permanent measures to control current primary expenditure, including the wage cost in the public sector, and urgently implement labour and product market structural reforms. In particular, the Greek authorities should ensure that fiscal consolidation measures are also geared towards enhancing the quality of public finances within the framework of a comprehensive reform programme, while swiftly implementing policies to further reform the tax administration.

(13) A variety of indicators and analyses confirm that Greece has been losing price competitiveness on a large and sustained basis over the past ten years. The rise in wages in excess of productivity growth is an explanatory factor. Public sector wages relative to private sector wages have risen faster in Greece compared with other euro area economies and have affected overall wage bargaining, underlining the need for the public sector to play a lead role in helping restore wage moderation. In addition, some features of the Greek collective bargaining system (for example, the intermediate level of bargaining) can also explain the misalignment of wage and productivity growth, and require adjustments

(1) OJ L 209, 2.8.1997, p. 1.
(2) OJ L 83, 30.3.2010, p. 13.

to be agreed by social partners. Looking forward, the wage bargaining system must support wage changes which more closely reflect competitiveness, productivity developments and local labour market conditions.

(14) Public administration has been a major obstacle in raising efficiency in Greece. Greece ranks poorly as regards the public sector in most international comparisons and many problems are thought to derive from insufficient administrative capacity and efficiency. The authorities have made commitments to improve its functioning. These should translate into reduced staffing, improved human resource management in public entities, reduced costs, increased transparency, increased legal certainty and the effective implementation of policies.

(15) Greece has considerable scope to improve its business environment and product market functioning. Businesses face complex, burdensome and lengthy administrative procedures. Professional services are heavily regulated, barriers to competition are amongst the highest within the Union. Moreover, the liberalisation of network industries (for example, energy) is lagging behind the Union average, as well as the opening of markets in the transport sector, especially in rail. Reforms in these areas could increase private investment and employment at little cost for public finances. Product market reforms could also help the implementation of labour market reforms by reducing cost pressures.

(16) Greece's labour market is also in need of reform in line with the common principles of flexicurity, as noted by the Council in its 2009 recommendations on the implementation of employment policies. Particular attention needs to be paid to young persons, given the difficulties they face in entering formal employment. There is serious scope for supporting labour market transitions including by improving education and training policies, upgrading the skills of the workforce, and improving the efficiency of active labour market policies, drawing also upon the support of the European Social Fund. There is also a need to ease employment protection legislation. Furthermore, policies should encourage active labour market participation. Implementation of these recommendations is of key importance for the Greek economy. The employment effects of the structural actions implemented in the economic area should thus be duly taken into account.

(17) The faster and more effective absorption of the Union's structural and cohesion funds has the potential of playing a critical role in the success of efforts to restore competitiveness and sustainable public finances. Compared to other Member States, progress with the absorption of funds has been lagging. By working with the Commission to take measures to improve absorption capacity and the design of operational programmes, Greece could finance key public investments that support long-term growth potential whilst at the same time allowing budgetary consolidation to proceed. Particular attention should be paid to the operational programme on 'Administrative Reform' and 'Digital Convergence' as these support essential reforms in the public administration which are central to the reform strategy outlined in the January 2010 update of the stability programme. For example, the Union's structural funds under these operational programmes could be relied on to support the public sector in reforms of the health care system, public employment services, lifelong learning, fighting undeclared work, and the building up of effective regulatory control and enforcement capacities.

(18) The Greek banks appear relatively sound in terms of profitability and capital adequacy. Furthermore, the resilience of the sector has been confirmed by extensive stress-testing. In addition, the Greek banks maintain a low level of non-performing loans (approximately 7,2 % of total loans) and a relatively low loan-to-deposit ratio. However, the Greek banking sector has experienced difficulties in accessing liquidity on wholesale markets, leaving it substantially reliant on Eurosystem lending. In sum, while the Greek banking system is overall robust and suffered less than some other Member States from the global financial crisis, it is unlikely to remain immune from the difficulties in the Greek public finances. Moreover, the impact of economic and financial problems in some of Greece's neighbouring countries is a concern.

(19) In the light of the impact on the Greek economy of the global economic and financial crisis, the implied re-pricing of risks puts further pressure on debt burden and raises risk premia on government debt,

HEREBY RECOMMENDS:

1. Taking into account the institutional weaknesses of the Greek public finances and economy at large, Greece should design and implement, starting as soon as possible in 2010, a bold and comprehensive structural reforms package which goes beyond the measures outlined in the January 2010 update of the stability programme. Clear and detailed time plans should be made available for the proposed reforms and followed during implementation. More specifically, taking into account the importance of ensuring the effectiveness of the wage bargaining system and the need for overall wage moderation, against the background of competitiveness losses, Greece should:

(a) reduce the public wage bill, so as to ensure that public sector wage policy plays a leading role to the private sector wage formation and contributes to overall wage moderation;

(b) streamline the wage payment system for direct public administration employees by providing unified principles in setting and planning wages and streamlining the wage grid; this wage policy should be extended to compensation rules for public enterprise employees;

(c) enhance flexibility of the wage-setting system by promoting more decentralised wage bargaining (for example, avoiding the administrative extension of collective agreements to enterprises not involved in the negotiations), including by decoupling from public sector wage developments; improve the implementation of the wage bargaining law to limit the use of the exemption clause.

2. Given the urgent need to reform the pension system, and in view of challenges to the long-term sustainability of public finances, Greece should:

(a) proceed with a timely and comprehensive pension reform, which should contribute to public finance sustainability;

(b) ensure the alignment of statutory retirement ages between women and men and introduce additional parameters that automatically adjust the pension level and statutory retirement age to changes in underlying economic and demographic factors;

(c) ensure that comprehensive labour market reforms support increased labour supply and employment in order to expand the contribution base;

(d) adapt the pension award formula by strengthening the link between contributions paid and benefits received, and indexing pensions to prices, instead of the discretionary indexation so far;

(e) increase the average exit age from the labour market through stricter eligibility criteria for early retirement; reduce substantially the current excessively long list of occupations allowing for early retirement;

(f) simplify the fragmented pension system and introduce universally binding legislation on entitlement, contributions, accumulation and indexing;

(g) adopt, already in 2010, the necessary legal acts.

3. In the field of healthcare, reforms should focus on:

(a) overhauling the excessively fragmented structure of the health care system and its governance;

(b) enhancing the quality and efficiency of public primary health care services;

(c) modernising hospital administration and accounting procedures;

(d) procurement procedures, by also reviewing the list of medicines purchased.

4. There is a need to enhance the efficiency of public administration. To this end, Greece should:

(a) develop, approve and implement the strategic reform needed to ensure a significant improvement in the transparency and effectiveness of its public administration; this would be based on an independent functional review of the overall structure of public administration, in order to increase the effectiveness of public administration in several policy areas, particularly the decision-making structures, the division of responsibilities among institutions, the internal organisation of key ministries, the oversight and accountability for implementation, and the extent of staffing levels and human resource management; the upward trend in public sector employment should be reversed;

(b) consolidate the number of municipalities and local councils, inducing sizeable expenditure savings;

(c) take measures with a view to ensuring that public procurement is carried out in a cost-effective, transparent and competitive way.

5. Another priority, to be addressed already in 2010, concerns improvements in the functioning of the product market and business environment. To this end, Greece should:

(a) achieve the objectives set in the better regulation agenda by simplifying procedures for starting, licensing and operating a business; streamlining and simplifying Greece's regulatory system by creating in each ministry specialised units for better regulation, by strengthening the role of impact assessments and in general, by speeding up the implementation of the administrative burden reduction programme;

(b) adopt and implement a clear and action-oriented competition policy framework including a review of priority setting rules and a reform of enforcement practices; strengthen the role and capacity of the Hellenic Competition Commission;

(c) swiftly and ambitiously implement the rules of the Services Directive;

(d) take effective measures to increase competition in professional services;

(e) further promote and monitor deregulation of the transport and energy sector, in particular by lifting price restrictions and barriers to entry in the road freight sector; by fully implementing the first railway package [1] in order to promote the market opening of the railway sector and by stepping up the liberalisation of the electricity sector by unbundling current incumbent operations;

(f) ease regulation in the retail sector.

6. With a view to supporting productivity and employment growth, Greece should:

(a) take immediate measures to fight undeclared work;

(b) review labour market regulations, including employment protection legislation, with a view to increasing labour supply;

(c) support labour demand by reinforcing targeted reductions in the cost of labour;

(d) enact reforms in the educational system aimed at improving the level of skills of the labour force and enhancing responsiveness to labour market needs.

7. Against the background of the challenge to improve productivity, including through prioritised public investment strategies, Greece should take all necessary measures to improve the efficiency and pace of absorption of EU structural funds. In doing so, particular attention should be paid to the swift and efficient implementation of the operational programmes on 'Administrative Reform' and 'Digital Convergence', as these support essential reforms in public administration, which is central to the reform strategy outlined in the January 2010 update of the stability programme.

8. Greece is invited to report on measures taken in response to this Recommendation, and on the calendar of the implementation of the structural measures, outlined in the January 2010 update of the stability programme, in the context of the quarterly reports established by Article 4(2) of the Council Decision of 16 February 2010.

This Recommendation is addressed to the Hellenic Republic.

Done at Brussels, 16 February 2010.

For the Council

The President

E. SALGADO

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[1] Directives 91/440/EEC (OJ L 237, 24.8.1991, p. 25), 95/18/EC (OJ L 143, 27.6.1995, p. 70) and 2001/14/EC (OJ L 75, 15.3.2001, p. 29).