

The Exit Dilemma

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ABSTRACT: After a certain period of growth Greece is facing a set of serious fiscal problems sourced from low competitiveness, expensive product and delaying alignment to the global market standards. Although the title of this research paper implies the possible temporary exit of Greece from euro zone, actually, it aims to investigate what are the required actions to be taken in order for the country to recover and return in sustainable growth. The dilemma derives from whether social partners will agree to involve and consensus will be adopted. The study presents the recommendations derived from country reports about Greece, published by globally recognized organizations such as the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD). This paper aims to compress this feedback in few pages in order to serve as a reference point.

Greece has a unique opportunity to remain in euro zone and turn its long-time distortions and economic instability to a positive framework equipped with international competitiveness and sustainable development.

Keywords: fiscal deficit, imbalances, reforms, labour, market, public administration

1. Introduction - Situation analysis

After a 10-year period of strong growth, Greece has started to feel the effects of the global downturn which rose in early 2009. The large fiscal deficit and external imbalances have made the economy vulnerable [IMF, Executive Board, 2009].

Greece is a country-member of the European Monetary Union (EMU) with 11 million inhabitants but 5 million of labour force. The one fifth of this force is consisted of immigrants. Less than half of the registered population belongs to what-so-called economic active population. A percentage of 65% is occupied in services, a 23% in industry and the rest 12% in agriculture. The country has one of the highest disparities between the number of public servants, as percentage of the workforce, and their compensation as percentage of total compensation. The compensation of civil servants in Greece is relatively high [OECD, 2010].

In terms of budget, data of 2009, estimates revenues of 109 billion dollars and expenditures of 145 billion dollars. Exports are estimated in 21.3 billion dollars and imports around 64.2 billion dollars [CIA, 2010]. The fiscal deficit has reached close to 13% of GDP in 2009 [OECD, 2010]. Public debt was about 100% of GDP in 2008 and 113.4% of GDP in 2009 ranking the country in the 8th place globally. Defence spending was estimated at 4.25% of the GDP in the mid-2000s.

The country is still today less developed than other euro zone countries. At the same time, it showed greater rates of growth and higher rates of inflation than other member countries. This was due to “a structural expensiveness” in the Greek market which mostly has an oligopolistic nature, with almost the unique exception of the telecommunications sector [Pelagidis, Toay, 2007]. The product market rigidities may be considered as the impact derived from excessive regulations, complicated hiring burdens and mediating costs that are keeping bended any free-will for investments. Moreover, there are serious obstacles in business activities due to bureaucratic issues. Such cases encourage money laundering and financial crimes.

According to Global Corruption Report 2009 [Transparency International, 2009], Greece was placed in the 57th out of 180 countries for the year 2008. According to a national survey presented by the Transparency International Greek branch, for the year 2009 it is estimated that the size of the total corruption (both public and private sectors) will be increased at approximately 787 million euro, than the estimation of 748 million euro of 2008 [Transparency International-Greece, 2009].

Levels of foreign investing are low comparing to other OECD countries, since Greece is ranked in the 28th out of 30 countries [Political Risk Services, 2009]. Openness to foreign investment could be considered rather restricted. Foreign and domestic investors face almost the same screening

criteria. Foreign firms are not subject to discriminatory taxation. There is though the “Invest in Greece Agency” which operates as a one-stop shop for assisting investments in the country.

Greece has experienced a loss of competitiveness. The real exchange rate is significantly overvalued relative to fundamentals. Labour markets are relatively weak. The employment rate is low and the unemployment duration is among the highest among peers. Long-term unemployment turns to inactivity. Structural impediments hinder product market performance such as: limited liberalisation of utilities, insufficient internal competition due to high regulation, low ICT penetration, and high barriers to entry in the market especially in services.

Besides that, it is difficult to measure productivity especially in the public sector where there is no clear image of what is the value of produced goods or services, since there isn't an evaluation framework.

Greece's economy has been and continues to be subject to intense governmental regulation [*Political Risk Yearbook, 2009*]. Greek labour laws are restrictive in terms of working hours' limits, flexible employment (part-time, on demand etc) as well as hiring and dismissal of personnel [*Political Risk Services, 2009*]. The tax regime lacks stability, predictability and transparency. The government often makes small adjustments to tax levels and imposes retroactive taxation.

Greece has more or less a fiscal deficit of fifteen percent (15%). The Greek government has to finance this deficit, in other words find ways to ensure that accounts will be paid and cash flow will not stop.

So far, growth has been financed by a private sector borrowing and a public sector spending. A significant income channel came from the absorption of EU structural adjustment funds [*Political Risk Services, 2009*].

Over the last fifteen years country has exhibited a remarkable record of economic growth and monetary convergence with the euro zone. Economic expansion has been largely based in (a) the liberalisation of the financial sector (provide cheap credits to households), (b) the reduction of interest rates due to EMU, (c) the migration inflows, (d) the pervasion to the southeast European markets, (e) the growth in public investments, (f) the inflows from EU programmes and (g) the consumption.

However, this growth was neither balanced nor in relation to labour productivity, employment participation and technology adoption.

Actually the financial sector's liberalization and lower interest rates after euro adoption caused a demand boom. Nevertheless, inflation and labour cost growth exceeded that of trading partners and eroded competitiveness [*IMF, Country Report, 2009*]. Imbalances persisted and in combination with the global financial crisis, that have weakened sentiment and sent spreads soaring, causing a financial scare. In addition, the lack of political consensus hampers policy making [*IMF, Country Report, 2009*]. Revenue shortfalls and rising expenditure are widening the fiscal deficit. Moreover, country is feeling the downturn with some delay. Euro area is experiencing a sharp recession and Greece is expected to further decouple.

Main forces are lower investments and exports, destocking and a decline in private consumption because confidence and employment have dropped [*IMF, Country Report, 2009*]. Inflation is projected to remain above euro average with unemployment reaching over 10 percent within 2010. Uncertainty and high risks are remain.

The recent economic turbulence has proved that Greek economy is still suffers of structural problems and weak fundamentals [*Monastiriotis, 2009*].

Public debt, lack of international competitiveness, unemployment, eroding public finances and a credibility gap stemming from inaccurate and misreported statistics are forming current Greek mix which directed to economic instability [*CIA, 2010*]. The falling state revenues and the increased government expenditures are two more ingredients of this unstable mix which moreover accommodates: tax evasion, inelastic government expenditures, an ageing population and an unsustainable pension system. Structural problems driving to low export penetration, unemployment and inactivity, low labour mobility and wage flexibility, low technological absorption, low educational performance [*Monastiriotis, 2009*].

Above all there is an economic duality which creates a framework; a given status-quo consisted of (a) a large shadow economy and (b) a disproportionately protected public sector [*Monastiriotis, 2009*].

The fiscal position will be further challenged from (a) the programmed reduction of European Union structural funds in 2013 and (b) the cost pressures from rapid ageing. The consistent underperformance on applying the necessary structural reforms throughout previous years, led to low productivity while wage and price inflation has remained constantly above the euro area average. Meanwhile, structural unemployment remains high, at approximately 10% [*OECD, 2010*].

The imbalances of the Greek public sector are driven by multiple structural factors. The dramatic rise of public expenditure and the inadequate control of government spending were the main cause of the widening fiscal deficit [OECD, 2010].

Two months ago the International Political Economy “think tank” has issued an article on the devaluation of the Greek euro, where it is clearly presented the country’s exit scenario of the Euro zone, although temporarily [Aliber, 2010]. The Greek “product” is considered expensive, since costs are too high. As a result it cannot stand in the globalized markets; it is less competitive and provides no sustainable future.

If there is no competitiveness there is no growth.

On the other hand, high costs lead to a massive current account deficit and among others contribute to high levels of unemployment [Aliber, 2010]. Unemployment directs to low level of fiscal revenues. A bigger economy makes it easier to absorb aging costs and improves the standard of living for all Greeks. Revenues need to increase and expenditures need to be cut. Greece will face incremental difficulties in placing additional debt not because the past debt, which has already been absorbed by the market, but because of the pressures from implicit future debt under current policies [IMF, Country Report, 2009].

The longer the government waits to adjust the comprehensive net worth gap, the more difficult it gets, because the shortfall is projected to get deeper every year.

2. Policies for a sustainable recovery

It is imperative practice to proceed with reforms in all referenced sectors but is questionable which will be the sequencing and requirements for such reforms to be successful.

Cut entities, reduce staffing and limit political appointees are the basic introduced reforms for the public administration. Moreover, it is requested to accelerate full privatisation of public enterprises and place greater trust in the public by publishing more information [IMF Country Report, 2009]. The reduced-size of the public sector will minimise government costs including administrative costs. For the remaining entities it is requested rationalisation and limitation of the wage bill and tight control over spending. The adoption of a performance-reward scheme and budget control is almost obligatory to act over control. Reform is necessary in loss-making state enterprises enabling the option of their privatization. Military expenditures should be controlled and rationalised. The reforms should include the health-care and the pension system. Any administrative burdens and red tapes in goods and services markets should be cut. Electricity and gas industries should be reformed. Structural reforms to the labour market should be made through promotion of social contracts focused on employment growth. Expansion of part-time work opportunities and reduction of employment protection could be implemented in combination with strong wage moderation [IMF Country Report, 2009]. The increased employment participation rate is a necessity for the country. Productivity gain and wage restraint are necessary to recoup international competitiveness, sustain growth and reduce the sizeable external deficit; further liberalization is requested; aligning product market regulations with best practices would increase labour productivity around 20% [OECD, 2010]. Current downturn is an opportunity to adopt more flexible institutions in both labour and product markets; such a change could improve labour market outcomes and reduce the risk of a further rise in the level of structural unemployment.

Rationalisation of the education system may act as a lever for future growth preparing the next generation professionals. Interventions to attract domestic and foreign investment and the increase of export penetration could be supported by raised innovation and productivity in order to upgrade the position of the economy in the value-added chain.

2.1 The OECD Recommendations

The Organization in its recent country report has introduced a number of recommendations in order Greece to recover.

1. Simplify and modernise the tax system: broaden the tax base, unify the administration of taxes and social security contributions;
2. Improve the process of budget preparation in entities: adoption of e-based budget and a multi-year budgetary framework;
3. Tighten control over public spending: adopt transparency of recruitment, enhance budgetary control over public entities, depoliticise boards and managements committees, make public entities more professional and accountable, stop interfering in their internal day-to-day operations;

4. Reform the pension system to ensure its long-term viability: increase the effective retirement age, extend the period over which pension benefits are calculated to the entire working life, extend the number of years to qualify for a full pension, change the conditions for awarding minimum pensions;
5. Raise labour market flexibility and tackle poverty: reduce employment protection legislation, encourage a decentralised wage bargaining, reform the tax and benefits system to limit widespread poverty among the working population, ensure that the minimum wage does not act as a disincentive for hiring young people;
6. Enhance the effectiveness of competition policy: reduce the administrative burden to start ups and the barriers to entrepreneurship, liberalise professional services, proceed with privatisation and foster competition in network industries, review laws and regulations that restrain competition;
7. Strengthen efficiency of the education system: modernise and develop the child-care sector through better regulation and increased supply of services, enhance school autonomy and accountability and teacher incentives, improve the curriculum in secondary and vocational education, enhance competition in the higher education sector and introduce reforms to improve financing of educational institutes; looking at different options that emphasize the focus on diversification of resources and equity issues;
8. Foster innovation and knowledge-based activities and promote a Green fiscal reform: foster firms' in-house learning capabilities, help them develop innovation in broad sense; strengthen environmental financing efforts towards the implementation of the polluter pays / user pays principles;
9. Resolutely pursue efforts to restore confidence in the management and impartiality of the State: use the crisis as a window of opportunity to establish an efficient and modern public sector, improve public communication on the costs of non-ambitious-enough reforms, study more on the reforms and keep track of understanding the cost of no reforms;

Furthermore, the Organization (OECD) tries to specify these recommendations in 9 specific sectors giving a set of actions to be taken.

A. Public administration and budget

1. Improve co-ordination and central steering:
 - *strengthen policy coordination*
 - *introduce explicit regulatory quality guidelines, leadership and oversight*
 - *simplify business start-up processes*
 - *establish a competency management framework*
2. Increase transparency and reduce loopholes on budget and personnel:
 - *limit regularisation of contractual staff*
 - *further increase transparency of recruitment*
3. Improve the process of budget preparation, monitoring and evaluation:
 - *move swiftly toward a programme-based budget and a multi-year budgetary framework*
 - *consider adopting a stricter fiscal rule, with constitutional rank, imposing expenditure control*
 - *establish a parliamentary budget committee*
4. Improve data and analysis:
 - *require regulatory impact analysis*
 - *put in place a systematic and strategic review of government needs*
5. Strengthen performance management and accountability:
 - *reinforce current performance budgeting pilots and expand them to cover additional sectors*
 - *develop a system-wide performance management process*
 - *introduce an integrity framework*

B. Pension reforms

1. Extend the retirement age in line with increases in life expectancy.
2. Increase the effective retirement age by further restricting access to early retirement and providing incentives in the pension formula to work longer.
3. Extend the period over which pension benefits are calculated, to the entire working life.
4. Extend the number of years required to qualify for a full pension.

5. Change the conditions for awarding minimum pensions so that access is limited to persons who have reached the statutory retirement age.

C. Governance of State-owned enterprises

1. Depoliticise boards and managements of SOEs so as to make them more professional and accountable.
2. Stop Ministries' day-to-day interference in the affairs of SOEs and transfer responsibility for performance to management and boards. This will require a new approach to policy formation.
3. Enforce boards' accountability for the financial performance of the company and strengthen their ability to hold management accountable.
4. Consider privatisation for SOEs in competitive sectors such as finance, drawing on recent OECD best practices in the area.
5. Strengthen competition and regulatory frameworks for other sectors dominated by SOEs, so as to improve efficiency.

D. Tax policies

1. Strengthen the tax administration in order to effectively fight against tax evasion.
2. Consider concrete steps to improve auditing activities.
3. Unify the administration of taxes and social security contributions and centralise their collection under a single authority, as announced by the government.
4. Review tax bases with a view to rationalise all exemptions and deductions. This applies in particular to the personal income tax system.
5. Simplify the VAT structure to bring country closer to international practice.
6. Increase harder-to-evade taxes, such as property taxes, excise tax rates on petrol and diesel, a more widely based CO2 tax.

E. Employment and Social Policy reforms

1. Place a greater emphasis on activating the unemployed, especially youth and women. Higher participation in job search training should be required and the mutual-obligations principle should be applied.
2. Tackle widespread dualism in the labour market, introducing single contracts with moderate protection against dismissal.
3. Target existing employment subsidies on the most disadvantaged youth and ensure training is offered by the employer.
4. Ensure that the minimum wage does not act as a disincentive for hiring young people, while providing training to remove barriers to work.
5. Reform the tax and benefits system to strengthen incomes of poor families and limit widespread poverty among the working population.

F. Education

1. Proceed with the implementation of recent steps to develop a regulatory framework and modernise the operation of the childcare sector, by setting technical standards for the premises, and developing a pedagogical programme for pre-school education.
2. Increase primary and secondary autonomy and accountability, as well as teacher incentives and accountability.
3. Improve the curriculum in secondary and vocational education, better equipping students with the competencies to succeed in their post-school life.
4. Enhance competition in the higher education sector and introduce reforms to improve the way education systems are financed, looking at different options that emphasise the focus on diversification of resources and equity issues, as a means to ensure that access by less affluent students is eased.

G. New sources of growth: innovation and green growth

1. Foster firms' in-house learning capabilities to help them move from R&D to incremental innovation of products and processes and a wide range of innovation activities. Pay particular attention to service sector.
2. Develop policies to enhance regional industrial clusters while improving instruments used to promote collaborative innovation.
3. Develop and systematically apply advanced monitoring and evaluation practices.

4. Strengthen the human resource base for science, technology and innovation in reforming the tertiary education sector, especially the Greek university system.
5. Prioritise investments that can foster long-term economic growth and support a move to a green economy.
6. Strengthen environmental financing efforts, moving towards the fuller implementation of the polluter-pays and user-pays principles as this would decrease pressure on the public budget and reliance on EU sources.

H. Competition

1. Introduce centrally-led review of stock of laws and regulations for competitive effects with follow-up revisions of laws and regulations that unnecessarily restrict competition.
2. Add competition assessment to regulatory impact analysis of regulations overseen by the office of the Government's Secretary General.
3. Assess competitive effects of regulations at the ministry level as new regulations are developed or existing regulations examined.
4. Reduce the administrative burden to start-ups and the barriers to entrepreneurship. Liberalise professional services. Ease to regulatory framework in retailing.
5. Proceed with privatisation and foster competition in network industries, promote strong and effective regulators.

I. Reforming the public sector

1. Resolutely pursue efforts to restore confidence in the management and impartiality of the State.
2. Improve public communication on the costs of not-ambitious-enough reforms.
3. Maintain strong cohesion to promote the government's reform programme.
4. Consider creating a specialised, non-partisan "reform-institution" to foster understanding of the cost of no reform.

2.2 Lessons from others

The International Monetary Fund (IMF) in its additional country report has identified and proposed a number of case studies, of other countries that have faced similar fiscal problems in the past [*IMF Country Report No 09/245, August 2009*].

A. The UK case

What they have faced: increasingly disappointing economic performance, weak economic structure and high unemployment.

What they have done:

Reduce the state's role in the economy through:

- ✓ Privatisation of state-owned enterprises and public housing.
- ✓ Reduction in government size through cuts in civil service employment.
- ✓ Pension reform that reduced the relative value of state pension benefits and created incentives to enrol in private pension schemes.

Improve work incentives in benefit programs through:

- ✓ Net employment benefits were reduced by abolishing the earnings-related supplement, suspending their statutory indexation and making their taxation less favourable.
- ✓ Eligibility criteria for receiving unemployment and other benefits were tightened.
- ✓ Job-seeking efforts were monitored through a "Restart program" which required six-monthly counseling for all unemployed.

Reform the tax system through:

- ✓ The number of bands for marginal rates of personal income tax was reduced while rates were lowered.
- ✓ Exemptions were reduced or eliminated, while the taxation of capital income was streamlined.
- ✓ The share of indirect taxes was increased and corporate profit taxes were lowered while their base was broadened.

Reform trade unions through:

- ✓ Government introduced a series of legislative reforms including, (a) extending the grounds for refusing to join a union, (b) introducing limits on picketing, (c) prohibiting actions that force contracts with union employers and (d) weakening the closed-shop and union immunities.

Liberalize financial markets through:

- ✓ Administrative measures curbing bank lending and lending by building societies were removed.
- ✓ Pricing for financial services was liberalised.

Promote entrepreneurship and self-employment through:

- ✓ Government introduced measures to foster self-employment such as, (a) offering tax-relief, (b) facilitating bank borrowing for small companies and (c) establishing local agencies to counsel small businesses on planning, marketing and design.

What they have achieved: The reforms contributed in halting the previous trend of relative decline in GDP levels per capita as the overall labour market and growth performance improved in the 1980s and 1990s. Moreover the structural reforms of the 1980s contributed to the UKs improved relative productivity performance.

B. The Canada case

What they have faced: debilitating economic conditions, high federal government deficit.

What they have done:

- ✓ A retooling of the budget process: to incorporate a transparent budget forecasting framework, including a contingency reserve for debt reduction.
- ✓ An expenditure review of all federal ministries: to refocus the role of the government and stress the cost effectiveness and efficiency of public services.
- ✓ An ambitious state reform: including notably a 20 percent cut in the federal civil service; a reduced presence of the government in the economy through selective privatisation and contracting out; and broad deregulation.
- ✓ A number of steps to raise economic flexibility and competitiveness which complemented the fiscal reforms: (a) reform of employment insurance and social assistance, (b) pension reform, (c) dismantling of trade barriers, (d) deregulation of major network industries and (e) reduction of administrative burdens.

What they have achieved: The fiscal turnaround after 1994 was remarkable. In 1998 the country has achieved a fiscal surplus, a year earlier than planned. Since the fiscal situation was improved the government enacted to the largest tax reductions in Canadian history in 2000. Between 1997 and 2006, Canada enjoyed the highest job creation and output growth among G7 countries.

C. The Australia case

What they have done:

Labour market reforms:

- ✓ Bargaining agreements on employment conditions were decentralised at the enterprise level so as to better align wages to productivity gains.
- ✓ Furthermore the possibility of individual contracts was introduced.
- ✓ They have worked on the decline of the unionisation rate.
- ✓ They have achieved a low level of corporatism.

Product market reforms:

- ✓ Trade liberalisation.
- ✓ Reductions in tariffs were implemented across all industries starting in 1988 and by 1990 all tariffs have become negligible.
- ✓ Infrastructure reforms have taken place including: deregulation and restructuring of air and coastal transport and telecommunication.
- ✓ Public services were progressively commercialised and privatised.
- ✓ Anti-competitiveness regulations were reduced.
- ✓ Reformation took place in government business.
- ✓ Reformation took place in transport and utilities sectors.

What they have achieved: Labour market flexibility directed to faster productivity especially in industries that are more human-capital intensive. Flexibility in labour market directed to more ICT penetration and more funds for R&D.

D. The Case of Ireland and the Netherlands

What they have faced: A macroeconomic deterioration in the early 1980s in combination with adverse global supply shocks and abetted domestic policy mistakes.

What they have done:

- ✓ Wage moderation through a strategy to mitigate the effects of nominal wage growth with labour cuts. Unions and employers cooperated to achieve wage restraint and government reduced labour taxes and social security contributions especially for low-income workers.
- ✓ Freeze on the public sector wage bill and decrease in public employment.
- ✓ The minimum wage fell and so did the social benefits linked to it.
- ✓ Reduce benefits generosity, shorten their duration and tighten the eligibility requirements.
- ✓ Minimise employment protection legislation.
- ✓ Market reforms took place on administrative simplification procedures and openness to trade and foreign direct investments.

E. The case of New Zealand

What they have faced: In early 1980s the country faced high and variable inflation, rising public debt, growing unemployment and mounting external pressures. In 1984 they experienced a loss in international confidence ref their economy and macroeconomic policies. The case looks similar to the Greek one. Reforms decided were sequenced and spanned a decade.

What they have done:

- ✓ Authorities introduced policies that allowed exchange rate to float, they removed foreign exchange controls, liberalised financial markets and international capital flows.
- ✓ Remove distortions from the market.
- ✓ Deregulate goods markets.
- ✓ Liberalise trade.
- ✓ Implement an aggressive privatisation program.
- ✓ Budget and tax reforms took place.
- ✓ Strengthen the fiscal policy through reforms of the accountability and incentive structures in all parts of the public sector.
- ✓ Labour market reforms took place as well.

What they have achieved: The inflation fell to low and stable levels. There was a decrease of public sector operating deficit while an improvement in economy's growth performance.

F. The case of Austria

The country decided to operate proactively giving the change in global conditions. Before face problems they have focused in keeping unemployment in low percentages, keeping growth levels higher than the euro area, stay competitive in the global market.

What they have done:

Labour market reforms:

- ✓ Labour and employer representatives decided to wage drift at the local and firm levels while productivity has been growing.
- ✓ Introduce flexibility in working time and the severance of the payment system.
- ✓ Access to the labour market has been facilitated for skilled personnel from new EU member states.
- ✓ Active labour market policies have been reformed to better fit individual or group specific needs.
- ✓ Social security contributions have been reduced.

Product market reforms:

- ✓ Entry restrictions in sectors such as wholesale and retail trade have been lowered.
- ✓ One-stop-shop for starting businesses was established.

- ✓ Legal shop openings were extended.
- ✓ The gas and electricity markets were liberated.
- ✓ An independent authority on competition was established.

Pension reforms:

- ✓ Reduce the fiscal subsidization of early retirement.
- ✓ The statutory retirement age of civil servants was raised.

Education reforms:

- ✓ Introduction of government funding of higher education institutions based on student enrolment.
- ✓ Earmarking student fees to the universities in which students enrol.
- ✓ Widening performance related elements in university funding and in contracts for staff.
- ✓ Introduction of a formula-driven budgeting system to strengthen the financing and autonomy of universities.
- ✓ Increase resources for vocational training measures.

2.3 The IMF menu of options

The IMF has introduced a plan of action. The product and labour market reforms are complementary in combination with fiscal reforms which will focus in lower government spending and reduced benefits [IMF Country Report No 9/245, 2009].

Labour market measures will aim to improve institutional frameworks and moderate wages:

- ✓ *Achieve wage moderation through limiting the growth of minimum wages in the context of a coordinated agreement from social partners that creates sufficient “buy-in” by the different vested interests;*
- ✓ *Equalize at a lower level employment protection for both permanent and temporary contracts, by streamlining layoff rules, relaxing hiring procedures, lowering firing costs and allowing for more flexible hours to facilitate higher employment rates for females, youths and the elderly;*
- ✓ *Investigate the effectiveness of Active Labor Market Policies and implement those that yet results;*

Product market measures will aim at eliminating restrictions and privatizing public enterprises:

- ✓ *Reduce administrative burdens and simplify rules and procedures for new businesses;*
- ✓ *Reduce barriers to entry, especially in the service sector, including by fully implementing the EU Services Directive;*
- ✓ *Privatize state-owned enterprises;*
- ✓ *Deregulate and restructure transport, telecommunication and utilities, including by unbundling operations (generation-transmission-distribution) of electricity and reducing price restrictions and barriers to entry in the road freight sector;*
- ✓ *Strengthen and increase powers of the Competition Authority;*

Fiscal measures will aim at containing fiscal costs and achieving long-run sustainability:

- ✓ *Reduce the government’s wage bill using public wage freeze/cuts and reductions in civil service (for example by winding down entities that have been created for specific purposes);*
- ✓ *Reduce the tax wedge by lowering labour taxes and social security contribution rates, especially for low-income workers and reduce the “marriage penalty” to foster female employment (tax cuts should only be adopted in conjunction with lowering wages in the private sector and reductions in the government’s wage bill; its costs and benefits should be carefully weighed, especially given Greece’s significant tax evasion problems, and taking into account long-run fiscal sustainability);*
- ✓ *Streamline budget processes and undertake expenditure reviews to improve the cost effectiveness and efficiency of public services;*
- ✓ *Reform pensions to restore sustainability and reduce disincentives to work at older ages;*
- ✓ *Increase transparency and disclosure, including by publishing monthly tax revenues data, monthly central government budget performance information, and quarterly financial statements of public enterprises;*

3. CONCLUSIONS

The monetary units are no more simple means of exchanging. They reflect economies, they represent the abilities of the countries that use them and they support or destroy the ones that cannot afford their administration. Recently introduced financial tools which were widely adopted with the help of technology, have changed the nature and the role of monetary units establishing a new status-quo.

Based on feedback and recommendations already placed by international organisations, there is no doubt that a structural reform strategy is necessary for the country. Fiscal consolidation cannot be postponed. Economic instability and loss of respect should be recovered through an immediate plan. Markets depend on psychology and expectations. It is a challenge which could be best applied under current crisis, since this gives a unique opportunity. It is a question though, if social partners will agree to involve in the plan or oppose.

On the other hand, current recommendations as described so far, keep the country within the euro zone which is another unique opportunity to guarantee the stability of the economic conditions for the days ahead.

Alternative scenarios such as “the restructuring of debt” or “the temporary exit” from the euro zone remain open in the “survival table” but they should be neither of primary concern nor of first priority.

Country has the option of aligning to the requested changes and staying on the safe side remaining a member of the global game.

To restore competitiveness and remove the imbalances, a dual agenda needs to be concurrently implemented: first, a multi-year program of fiscal consolidation, which can reduce risk premia and crowd-in private investment, raising the growing potential of the economy; second, bold and wide-ranging institutional reforms in the public sector and structural reforms in product and labour markets, which can enhance productivity and raise the employment rate. Only by undertaking these reforms will the Greek economy be able to become more competitive and increase its growth potential and the prosperity for citizens [*Provopoulos, October 2009*].

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