EUROPEAN
COMMISSION

Brussels, 29.5.2013
SWD(2013) 358 final

COMMISSION STAFF WORKING DOCUMENT

Assessment of the 2013 national reform programme for GREECE

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Economic Outlook

Leading conjunctural and financial market indicators are showing improving confidence in Greece's recovery, in spite of worse-than-expected data for the last quarter of 2012 that resulted in an annual GDP decline of 6.4%. The Commission expects a GDP contraction of 4.2% in 2013, with a moderate recovery forecast for 2014, leading to 0.6% growth, and accelerating in 2015 and beyond. The average unemployment rate was 24.3% in 2012 and is projected to peak at 27% in 2013. However, once the recovery gains traction, wage adjustments are projected to give rise to a relatively rapid and sustainable decline in unemployment starting from 2014, when it will fall to 26%. Inflation has fallen from 1.6% in October 2012 to -0.2% in March 2013 and the Commission expects price declines of -0.8% in 2013 and -0.4% in 2014. The Greek current account deficit is set to continue its strong improvement, shrinking from 11.7% of GDP in 2011 to 5.3% of GDP in 2012 to 2.8% of GDP in 2013 and 1.7% of GDP in 2014.

Fiscal developments outperformed programme targets in 2012. The headline deficit, including the one-off cost of support to the banking sector, was 10% of GDP in 2012. Net of such cost, the deficit was 6.3%, slightly better than 6.6% projected. All other performance criteria and the indicative target on government arrears for end-2012 were also met. Measures have been agreed to avoid the emergence of a fiscal gap for 2013 and 2014 and the programme targets for the primary deficit are expected to be met in both years.

Key Issues

Greece continues to make progress under the programme, but implementation risks remain high and full commitment by the authorities remains paramount to consolidate recent improvements. Public finances are steadily improving, the banking sector recapitalisation has reached an advanced stage and important structural reforms are being implemented. Nevertheless, further efforts are still needed and a determined implementation of the reforms included in the programme is critical. The next review mission of the second economic adjustment programme is expected to start on 4 June.

Further challenges remain to reform the tax system and fight evasion, deliver the delayed public administration reform, increase competition in product and services markets, improve the energy and transport sectors and the business environment. The authorities should also continue the upgrade of the education system and introduce measures to promote employment and improve the country's social safety net within the current budgetary envelope.

- **Public finances**: Despite the on-going recession, Greek public finances have been improving, allowing the 2012 fiscal deficit target under the programme to be met. Assuming full implementation of the measures agreed to avoid the emergence of a fiscal gap for 2013 and 2014, the programme targets for the primary deficit should also be met in both years. A comprehensive income tax reform was passed in January 2013 that broadens the tax base and will share more equally the tax burden. Major progress has been made in reinforcing the organisation of the revenue administration, but much work remains to be done to improve its effectiveness, provide it with the necessary tools to achieve effective revenue collection and step up efforts to fight tax evasion, money laundering and corruption. Significant delays have occurred in the public administration reform, but the authorities have now taken measures to speed it up, in particular to replace staff that are leaving through mandatory exit with qualified employees in priority areas (such as tax administration). Greece also needs to make significant progress on public procurement reform, given the potential scope for savings, and move ahead with the reform of the judiciary to reduce case backlogs. The overall speed of the privatisation process remains unsatisfactory, but important steps have now been taken in the preparatory process.

- **Banking sector**: The viability of the Greek banking system is being restored, with its recapitalisation in its final stage, in order to support economic recovery and maintain the protection of depositors.

- **Structural reforms**: Further steps are needed in liberalising the energy and transport sectors. Progress has been made in improving the business environment, and there is some preliminary evidence that retail market reforms may have started to increase competition, but Greece has to take further steps to rationalise licensing procedures and to reduce or remove entry barriers. Extensive labour market reforms introduced in 2012 are delivering results in terms of wage flexibility and improved competitiveness but need to be complemented with measures to promote employment, including by making Greece a better place to invest. The authorities are seeking ways to improve the social safety net within the current budgetary envelope.

1. INTRODUCTION

Following a request from Greece in April 2010, the European Commission, on behalf of the euro area Member States, the ECB and the IMF negotiated an economic adjustment programme with the Greek authorities, which was agreed by the European Council on 2 May 2010 and by the IMF board on 9 May 2010. The programme covered the period 2010–13. In December 2011 and January/February 2012, a second economic adjustment programme was negotiated with the Greek authorities. It was agreed by the European Council on 13 March 2012 and by the IMF board on 15 March 2012. The second programme covers the period 2012–14. The combined financial package of both programmes amounts to EUR 237.5 billion, consisting of EUR 73 billion from the first programme and EUR 164.5 billion from the second one.

The Adjustment Programme is supported through financing by euro area Member States and the IMF. The financing by the euro area Member States is provided by the EFSF, whilst the IMF financing is channelled through the Extended-Fund Facility (EFF). Up to May 2013, international assistance loans disbursed so far to Greece amounted to EUR 200.9 bn. Of this amount, EUR 73 billion were disbursed under the first programme (EUR 52.9 billion were paid by the euro area Member States and EUR 20.1 billion by the IMF). Under the second programme, the EFSF and the IMF have already disbursed EUR 127.9 billion as part of the first and second releases under the second programme (including EUR 123.1 billion from EFSF and EUR 4.84 billion from the IMF).

The overarching objective of the economic adjustment programme is to restore Greece's fiscal sustainability, safeguard the stability of the financial system and boost competitiveness, sustained growth and employment. To this end, the programme consists of a comprehensive set of ambitious policies that reinforce each other and that are outlined in the next section.

As for all Member States benefiting from a financial assistance programme, progress in implementing the accompanying policy programme in Greece is monitored in a dedicated, regular and specific manner, in line with the provisions of the Memorandum of Understanding. More detailed information is given in the Second Economic Adjustment Programme and from the second Compliance Report published on 17 May 2013[1]. Given the reporting requirements under financial assistance programmes and the great complexity of monitoring and enforcement procedures, programme countries have been exempted from the obligation to submit national reform programmes and stability or convergence programmes. However, the Greek authorities chose to present a National Reform Programme on 15 April 2013 outlining information on structural reforms in key policy areas contributing to achieving the Europe 2020 targets. This Staff Working Document under the 2013 European Semester provides a synthesis of recent progress in implementing the economic adjustment programme and achieving the Europe 2020 targets.

[1] This report, along with other information related to the financial assistance programme to Greece, can be found on:
http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm

2. ECONOMIC SITUATION AND OUTLOOK

Although worse-than-expected data for the last quarter of 2012 resulted in an annual GDP decline of 6.4 % in 2012, leading economic and financial market indicators, such as the European Commission Economic Sentiment Indicator (ESI) are showing improving confidence in Greece's recovery prospects. Moreover, deposits steadily returned to the Greek banking system since the difficult phase in Spring 2012, and this has continued afterwards despite recent developments in Cyprus. By contrast, current hard indicators continue to provide recessionary signals, with industrial production as well as retail and construction continuing to contract. Given the strong negative carry-over from 2012 and still falling domestic demand, GDP is expected to contract again by 4.2 % in 2013. A moderate recovery is projected for the beginning of 2014, leading to annual GDP growth of 0.6 % in 2014, accelerating in 2015 and beyond.

Investment and exports are expected to lead the recovery, yielding a projected annual GDP growth of +0.6 % in 2014. The recovery is then expected to accelerate in 2015 and 2016, with growth rates reaching 2.9 % and 3.7 % respectively. Falling unit labour costs, supported by structural reforms in the labour and product markets and the improved business environment should bolster Greek competitiveness, create new profitable business opportunities and encourage job creation.

At the start of 2013, unemployment remains high. The average unemployment rate was 24.3 % in 2012. Long-term unemployment has also risen fast, reaching 59.3 % of unemployment in the fourth quarter of 2012. The annual unemployment rate is projected to peak at 27 % in 2013. More than 65 % of unemployed have been without work for more than 12 months. Unemployment remains particularly high among people aged up to 24 years and among those in the 29-44 age groups while women are the hardest hit with 28.3 %. It is estimated that the average gross income in Greece has now fallen by 29 % since 2009. Once the recovery gains traction, the frontloading of wage adjustments in particular is projected to trigger a relatively rapid and sustainable fall in unemployment from the currently very high levels to 26 % in 2014 and to 21 % in 2016.

Prices are projected to fall in 2013, driven by falling labour costs and weak demand. In 2012, despite reductions in some retail prices, the impact of past increases in indirect taxes, administered prices, energy costs and unprocessed food prices have resulted in overall moderate price inflation, which has decreased steadily throughout the year, remaining well below the Euro Area average. The previous review projected that structural product market reforms, weak demand and falling labour costs would eventually feed into declining prices. In fact, in line with this forecast, year-on-year growth of the HICP index has fallen from 1.6 % in October 2012 to -0.2 % in March 2013. Moderate HICP price declines of 0.8 % in 2013 and 0.4 % in 2014 are expected, with inflation continuing to be well below the euro area average in 2015 and 2016.

The Greek external balance is set to continue to improve strongly. In 2012, the trade balance improved, particularly due to a sharp decline in imports. Private-sector involvement (PSI) in the restructuring of Greek sovereign debt last spring led to a sharp drop in interest expenditure to the rest of the world. In 2013, a rise in exports reflecting Greece's increasing competitiveness and further contractions of imports are expected to improve the trade balance further. Overall, the current account deficit shrank from 11.7% of GDP in 2011 to 5.3% of GDP in 2012. It is forecast to fall to 2.8% of GDP in 2013 and 1.7% of GDP in 2014. With regard to overall net lending/borrowing including the capital account, Greece is expected to reach a balanced position by 2015, after years of significant net borrowing from the rest of the world.

Fiscal developments outperformed programme targets in 2012. The end-December performance criteria for the general government primary cash balance and the state budget primary expenditure were met. On the revenue side, direct taxes held up quite well compared to targets, which partly compensated weak indirect tax collection, notably VAT. Social contributions were adversely affected by expectations of a new generous settlement scheme for social security debt, which created incentives for non-compliance. On the expenditure side, the authorities curtailed discretionary expenditure, notably operational expenditure and public investment, in view of the tight liquidity situation for the government resulting from delays in programme disbursement.

The headline deficit in 2012, including the cost of support to the banking sector, was 10 % of GDP. The estimated gross costs associated with the recapitalisation and resolution of banks in 2012 are about 4.5% of GDP. Excluding these costs and other factors specified in the programme, the primary balance is -1.3% of GDP, slightly better than the programme target of -1.5% of GDP. The overall fiscal deficit consistent with the programme definition is equal to 6.3% of GDP, slightly better than 6.6% of GDP projected in the most recent review, and some 1 percentage point of GDP better than the 7.3% of GDP deficit included in the original second programme of February 2012. The structural balance improved by more than expected in 2012. **All other performance criteria and the indicative target on the general government stock of domestic arrears for end-2012 were also met.**

Measures have been agreed to avoid the emergence of a fiscal gap for 2013 and 2014 and the programme targets for the primary deficit are expected to be met in both years.

To effectively tackle the challenges Greece faces and thoroughly implement relevant measures, full use should be made of assistance provided by the European Commission under the Economic Adjustment Programme and through the Task Force for Greece.

3. ECONOMIC CHALLENGES

3.1. Fiscal Policy and taxation

Greece's total tax to GDP ratio remains at 32.4% well below the EU-27 average (38.8%). Both the implicit tax rates on labour and on consumption are among the lowest of the EU27 at respectively 30.9% and 16.3%. The low VAT receipts are partly due to a relatively broad application of reduced VAT rates, even though both the standard and reduced VAT rates have been increased in the recent period. The standard rate is 23 % (up from 19 % in 2009). The reduced rate – applicable to goods such as fresh food products, some pharmaceuticals and electricity, as well as to certain professional services, such as transport of passengers and (non-exempt) services by doctors and dentists – was raised to 13 % in January 2011 (up from 9 %in 2009). A 6.5% rate (previously 4.5 and then 5.5 %) applies to hotel accommodation services, newspapers, periodicals, books, medicines and vaccines for human medicine. Specific services such as lawyers, artists, bailiffs and also the provision of hospital and medical care services by private entities that were exempted are since 1/7/2010 subject to VAT. Furthermore, the application of the VAT flat rate scheme for Taxi's was abolished. For the region of the Dodecanese, the Cyclades and Eastern Aegean islands the above rates are reduced by 30 %.

A comprehensive income tax reform was passed on 11 January 2013 that broadens the tax base and will share more equally the tax burden. The new rules will take effect from 1 January 2013, although the full budgetary impact will only be felt in 2014. The reform sets new tax schedules for earned income and for income of the self-employed. It scraps the general tax allowance and reduces special tax regimes and tax expenditure. It also shifts the system of company taxation from taxes on dividends to taxation of corporate income. The PIT system, overhauled in 2010, was further modified in 2011 and again, in January 2013. There are now three tax brackets (replacing the previous eight), with tax rates from 22 % to 42 % (applicable above EUR 42 000) for employment income consisting of salaries and pensions. In corporate taxation, The Law 4110 enacted in January 2013 changes the picture for net profits to be reported after 1 January 2014. It increases the tax rate to 26 % instead of the formerly applicable rate of 20 %. The corporate tax rate increase has been accompanied by a reduction of the withholding tax rate on profit distributions approved as of 1 January 2014. This will now be reduced from 25 to 10 % for dividend distributions and profit capitalisations. The 10 % tax exhausts any further tax liability. **The tax reform, which is due to be accomplished by further changes in procedural codes over the coming months is expected to produce net revenue of close to EUR 2 billion, with the full budgetary impact felt in 2014.**

Addressing the structural weaknesses of the tax administration remains urgent. Even with a new Secretary General to drive the reform process, huge efforts are still required to refocus the tax administration from a system based on continuous bureaucratic contact with taxpayers through a wide network of small offices to a more concentrated and efficient structure that focuses on improving tax collection and on fighting tax evasion.

While progress has been made in preparing for privatisation, the overall speed of the privatisation process remains unsatisfactory. Although a number of transactions were concluded toward the end of 2012, the end-December target for privatisation proceeds was missed by a wide margin. Successful transactions included the sale of IBC (International Broadcasting Center) and the State Lottery and the gaming company OPAP. Advance bidding procedures also took place to facilitate the sale of gas companies (DEPA/DESFA). The majority of state-owned businesses have been transferred to the privatisation fund, and a new centralised state aid unit will also facilitate the timely and effective clearance of state aid-related issues. Major efforts are needed, given the delays and the scale of the challenges, in liberalising and privatising the energy sector, in particular to implement the restructuring and privatisation plan for the incumbent electricity company PPC (see below). Given the high proportion of real estate assets in expected privatisation proceeds, accelerating progress in this area remains crucial.

3.2. Financial sector

The viability and capitalisation of the Greek banking system is being restored in order to support economic recovery and maintain the protection of depositors. The recapitalisation of the Greek banking sector is progressing and has reached its final stage. Greek authorities have committed themselves to devise and implement a comprehensive banking sector strategy that aims to further consolidate the banking sector and swiftly privatise banks falling under HFSF control. The aim of the strategy is to create a leaner, more cost efficient, competitive and well capitalised banking sector, which is able to support the economic recovery. Therefore, core Greek banks will continue to act as integrators of smaller domestic banks, as appropriate. The strategy will also include options and operational steps for the HFSF to promptly dispose of shares to the private sector of the core banks that were not been able to remain under private control.

3.3. Labour market, education and social policies

Greece has a Europe 2020 **employment target of 70 %**, but the continuing and strong fall of employment has widened the gap for its attainment. Employment fell to 55.3 % in 2012 (from 59.9 % in 2011) making Greece the Member States with the sharpest decline in employment in the EU (Q3 2011 to Q3 2012). Total unemployment climbed to 24.3 % in 2012, and 55.3 % for those aged between 15-24 years old, keeping the unemployment rate of young people the highest in the EU. The gender gaps in employment and unemployment are especially negative for women and higher than the EU average. Young women have been hit particularly hard by unemployment, reaching 63.2 % in 2012, compared to 48.4 % for men. Furthermore, long-term unemployment (as a percentage of total unemployment) escalated from 45 % (2010) to 49.6 % (2011) to reach 59.3 % (2012). The ambitious labour market reforms described in section 3 and highlighted by the authorities in the NRP, together with new MoU measures to promote employment have the potential to reverse the declining trend, if they are fully implemented.

The extensive labour market reforms already implemented in the context of the programme are starting to make the market more reactive to changing economic conditions. The recent wage flexibility has not been sufficient to overcome the very high unemployment, but falling unit labour costs are bolstering Greek cost competitiveness, mitigating the effects of the recession on unemployment. Further **improvements in labour legislation** are expected, including the decision-making mechanism for updating the statutory minimum wage rates; reductions in non-wage labour costs to encourage declared work and measures to tackle undeclared work.

Support to the unemployed is being stepped up drawing also on the European Social Fund. A Youth Action Plan was launched by Greece to tackle the very high youth unemployment. The funds needed to implement the Plan (approximately EUR 517 million) are mainly sourced from the operational programmes of the

European Social Fund. A major revision of all ESF operational programmes took place in December 2012 in order to secure these funds. The plan is based on the Commission's Youth Opportunities Initiative launched in December 2011. It aims to boost youth entrepreneurship to support the creation of new jobs and to expand apprenticeship schemes combined with on-the-job training or new school-to-work programmes supporting acquisition of first working experience. The plan also includes further measures to help reduce early school leaving (ESL). Finally, it encourages the creation and development of social businesses in line with the Commission's Social Business Initiative. In total, approximately 350 000 young people will benefit from the plan that has already been activated. Complementing these steps, a temporary **public works programme for young people and the long-term unemployed** is expected to be introduced shortly and should provide some temporary support until the labour market recovers in 2015.

Building on existing schemes, a number of initiatives are being taken in the sphere of **active labour market policies**, notably as the authorities are preparing an **Action Plan** with a multi-pronged strategy to support the unemployed. Main pillars in the plan are the facilitation of the transition of workers between sectors and occupational groups, improvement of the quality of training policies, promotion of the employment of vulnerable groups and population more in need of income support. Opportunities for apprenticeships and vocational training with the dual training system at secondary education level will be introduced over the medium term, with stronger links with employers to increase graduates' chances of professional integration.

The education sector is undergoing progressive changes, although effective implementation of reforms remains key. A specific and well-defined Action Plan provides twice-yearly (June and December) guidelines to improve the effectiveness and efficiency of the education system in order to rationalise and modernise the schools and higher education sectors in particular. Laws 4009/2011 and 4076/2012 on higher education aim to secure changes such as the introduction of governing boards (which may include non-academic members), the financial autonomy and responsibility of universities and the internationalisation of curricula. The rationalisation of the network of higher education institutions and the mergers and consolidation of institutions have started to be implemented (ATHINA project) and are expected to be completed by spring 2014, but so far the Greek government has not presented publicly any impact assessment of this measure as regards the intake of students in higher education and its possible consequences for the level of tertiary attainment in Greece. On primary and secondary education, an evaluation of schools and teachers is on-going and expected to be completed by autumn 2013. The schools' self-assessment project (reported on a quarterly basis), which includes revising curricula, teachers' evaluation, continuous training of teachers and the upgrading and extension of all-day schools (the New School initiative), is continuing.

Greece performs slightly better than the EU average in early school leaving (11.4 % in 2012, having dropped from 15.5 % in 2006) in comparison to 12.8 % for the EU average in 2012. Since late 2009, the 'New School' reform is the main umbrella initiative aiming to improve compulsory education and to tackle low performance in basic skills. The tertiary attainment rate increased in 2012 to 30.9 % but is still lower than the EU average of 35.8 % in 2012 and has been increasing relatively slowly over the past decade (25.4 % in 2000). In the field of tertiary education, structural reform legislation voted through the Greek Parliament in 2011 with a large majority remains only partially implemented.

The Greek social welfare system is poorly targeted and coverage of the poorest is inadequate. The limited social benefit system in Greece contrasts with systems elsewhere in the euro area and is unable to reduce the high poverty rate. Eurostat calculates the rate of people at risk of poverty or social exclusion before social transfers, (excluding pensions). In 2011, the euro area average rate was a little higher than in Greece (25.4 % and 24.8 % respectively). But after accounting for social transfers, the poverty rate falls to 16.9 % in the euro area compared with 21.4 % in Greece. Families, especially single parents, need more support. For this reason, the single allowance child support was brought in in January 2013. This benefit will be granted to the first child of the family and is 40 euros per month for each dependent child of the family.

The authorities are seeking ways to improve social safety nets within the current budgetary allocations. To that end, the government is expected to report on policy options by mid-2013. They are expected to include at least the creation of an unemployment support scheme for the long-term unemployed, means tested and targeted to the poor by January 2014. That document should also detail the creation of minimum income scheme (on a pilot basis) and explain how these schemes will tie in with other active and passive labour policies and social transfers.

With regard to the reduction in the **number of people at risk of poverty or exclusion** under the Europe 2020 Strategy, in 2008 (the reference year) the number of people at risk of poverty or exclusion was 3 046 000. On the basis of available statistical data for 2011 (based on 2010 income), major changes can be observed. After many years of the rate remaining stable, the number of people at risk of poverty increased sharply by 12 % from 2010 (3 031 000) to 2011, reflecting especially the higher proportion of the population affected by severe material deprivation (15.2 % in 2011) and the proportion of jobless households (11.8 % in 2011). Relative poverty rose slightly less (21.4 % in 2011), but that was associated with an underlying 4 % decrease in the poverty threshold between 2008 and 2011. Administrative data collected via the Social Protection Committee suggests that the rapid rise in unemployment has not been matched by similar trends in benefit recipients, which may lead to a potential lack of social benefits coverage. The deterioration in the social situation demands full implementation of the measures included in the MoU to tackle unemployment and improve the social safety net.

3.4. Structural measures promoting growth and competitiveness

Greece needs to make significant progress on public procurement reform, given the potential scope of fiscal savings. The Greek Authorities have completed the regulatory framework of the Single Public Procurement Authority (SPPA), Greece's watchdog in procurement policy. In February 2013, the SPPA submitted an ambitious plan to recast all Greek legislation on public procurement, with a view to having it completed by the end of the year. The aim of the reform is to promote sound public procurement by making the newly created Single Public Procurement Authority fully operational. The new e-procurement platform is expected to reduce bureaucracy, prevent corruption, increase transparency and improve the participation of economic operators.

Efforts to promote an efficient and competitive business environment are on-going. In 2012, compared to the EU average, it was four times more expensive to start a business and more than twice as expensive to transfer property in Greece.[2] The government is screening legislation to reduce administrative costs, simplify business licensing and improve competition in key sectors. In the area of trade facilitation, the authorities are taking steps to simplify and improve business procedures. For the retail sector, the government is preparing new legislation to ease restrictions on Sunday trade. With regard to regulated professions, progress has been made on a number of professions (e.g. accountants, private education centres, tourist guides) and work on the draft code of lawyers is proceeding. Going forward, the government will evaluate activities reserved to the engineering and other technical professions, and reassess whether access to a profession requires registration in a professional association.

Major strategic changes are under way in the transport sector. Substantial progress has recently been made in restructuring the railways sector, including approving the legal changes to spin off service provision and real estate businesses and to transfer the rolling stock to the state. Previous reforms are now being implemented, such as relaxing restrictions on licenses for both road haulage and occasional passenger transport to provide the scope for greater market access. Restrictions have also been removed on the rental of pickup trucks and vans, on chauffeur services and to allow shuttle services by hotels and tour agencies to use small vans and off-terrain vehicles, thus reducing transport prices and boosting the tourism sector.

In the airport and maritime sectors, new strategies for growth are being designed. These sectors have made progress in establishing an independent regulatory framework, through a clear separation between administrative responsibilities and commercial activities. For airports, the authorities launched the privatisation process by designing two airport clusters for sale, with the remaining airports grouped in a separate company which will have a ring-fenced and transparent financing mechanism. In the maritime sector, reforms aim to increase routing flexibility while reducing the minimum service requirement burden on companies and providing for additional vessel flexibility.

In the electronic communications sector, Greece has accumulated significant delays in releasing the Digital Dividend (800 MHz band) for electronic communications other than broadcasting, but a number of preparatory steps are on-going with a view to allowing mobile broadband to be deployed in this band in the last quarter of 2014. With regard to fixed networks, Greece plans to implement ambitious plans to bring fast broadband to two million households. However, the absence of a specific national broadband plan, incorporating the various plans that are currently applicable, such as the Rural Broadband plan and the FTTH plan, raise concerns over the ability of the Greek Government to fulfil those objectives.

[2] Small Business Act Fact Sheet 2012.

In the energy sector, the government is continuing to implement the Third Energy Package. Following the adoption of law 4001/2011, the legal unbundling of the electricity transmission system operator (ADMIE) has been completed and the European Commission has issued its certification. The unbundling of DESFA (the Transmission System Operator) certification from RAE (the independent regulator) is pending.

The privatisation process of PPC, the electricity incumbent, has not started yet, but in May the government presented a plan that provides for full ownership unbundling of ADMIE from PPC, the creation and privatisation of a new vertically integrated company endowed with sufficient capacity to be a viable competitor, and the privatisation of PPC itself. The process should be completed in the first quarter of 2016, and should contribute, together with the reform of the electricity market due by June 2013, to solve the liquidity issues that have affected the sector since 2012.

Financing problems have also arisen in the RES account that is designed to fund renewables, due a renewable energy support scheme that in part granted overly generous tariffs (in particular for photovoltaics) and was insufficiently financed. The authorities have taken a number of ad-hoc measures in 2012 and 2013 that should bring the deficit in the RES account to zero by the end of 2014. It is crucial that the on-going reform process is now addressed in a more structural manner to unlock the significant economic potential of the sector and avoid placing excessive burden on consumers. The share of renewable energy sources in Greece was 11.6 % in 2011 (latest available data), which was well ahead of its 2012/13 interim target of 9.12% comparing rather well to other Member States.

Despite efforts to achieve the environmental goals of Europe 2020, by introducing regulatory reforms to accelerate the approval and permitting of projects, **investment in environmental** projects (i.e. in nature protection, research, waste management, water) has fallen significantly.

Concerning **energy efficiency**, Greece has indicatively set an energy saving target of 9 % by 2016, as required by the Energy Saving Directive (ESD). Greece’s annual implementation report on the Energy Efficiency Directive mentions a 2020 indicative objective of 20.5 Mtoe in final energy consumption. The recent final energy consumption reduction has been mostly achieved thanks to the economic downturn, rather than due to energy efficiency measures.

Concerning the reduction of **non-ETS emissions** (greenhouse gas emissions in sectors that are not covered by the Emission Trading System), Greece's target for 2020 is -4% compared to 2005 levels. In 2011 Greece's **non-ETS emissions** were -11% compared to 2005, however current projections for 2020 based on existing measures are that Greece's non-ETS emissions would increase by 3%, compared to 2005. Based on these projections, the target is expected to be missed with a margin of 7 percentage points.

In 2011 Greece set an **R&D intensity target** of 2 %. The NRP for 2013 revised this target downwards to 0.67 %, which the authorities consider more consistent with the current trends and the economic outlook. EU structural funds continue to play an increasingly important role in promoting R&D and innovation. Some progress has been achieved in the sectors covered by the MoU, but further efforts are needed, particularly to develop closer links between researchers and industry and to foster technology transfer.

3.5. Modernisation of public administration

Although progress has been made since 2010 in downsizing the public administration to make the wage bill more compatible with fiscal targets, further reforms are urgently needed to render the public administration more efficient and effective. The government has committed itself in the first Economic Adjustment Programme to reduce public employment by at least 150 000 over the period 2011-2015. The reduction by 79 923 achieved by the end of 2012 is the result of applying the 1:5 attrition rule (by which only one in five employees leaving the public sector should be replaced by a newly hired employee), combined with an increase in early retirements. However, the attrition rule does not satisfy the need to hire new qualified employees, in several priority areas (e.g. tax administration, independent regulators in key economic sectors). Therefore, a more targeted approach to hiring, mobility and the exit of staff is now envisaged to allow Greece to rejuvenate and upgrade human capital, skills and performance in the public administration.

The Ministry of Justice took steps in 2010-12 to modernise the judiciary and improve its efficiency, which is crucial to support the economy. Priority has been given to reducing the case backlog in courts. Various measures have been taken in this direction. The Greek Code of Civil Procedure is being reviewed in order to bring it into line with international best practice. A first draft will be submitted to the ministry of Justice by the preparatory committee by the end of May 2013. In order to reduce backlogs in administrative justice, an administrative case review mechanism will be brought in. The rationalisation and organisation of the magistrates' courts is being implemented. Designing a performance and accountability framework for courts, including collecting and compiling judicial statistics, is a priority and work has started successfully. The development of e-justice applications in courts will be completed for the main courts. It should cover the majority of cases in 2015 and be extended to the whole country in 2017. Promoting Alternative Dispute Resolution Methods including mediation is also a priority, and the Ministry of Justice is implementing a strategy on this. Greece is committed to open mediation to non-lawyers and draft legislation must be presented by the end of 2013. The judge's strike from September 2012 to January 2013 did not allow these reforms to bring immediate results, but it should yield results in 2013. On anti-corruption, the Ministry of Justice produced the required 'Fully-fledged action plan', with specific measures for the tax administration.

4. OVERVIEW TABLE ON EUROPE 2020 TARGETS

	Current situation	**Development over the previous year**	**Europe 2020 targets**
R&D investment (percentage of GDP)	0.57 % (2007)	The latest data available for Greece date back to 2007. R&D intensity in Greece was stagnating at around 0.60 % and was marked by a particularly low business R&D intensity, which increased at an average annual rate of 2.3 % between 2000 and 2007. In 2011 Greece set an R&D intensity target of 2 %. The NRP for 2013 revises this target downwards to 0.67 %, which the authorities consider more consistent with the current trends and the economic outlook. EU structural funds continue to play an increasingly important role in promoting R&D and innovation. The measures included in the NRP for the achievement of the R&D intensity target are being implemented in the context of the current NSRF or envisaged in preparation of the next programming period. Some progress has been achieved in the sectors covered by the MoU. However, further efforts are needed, particularly to develop closer links between researchers and industry and to foster technology transfer. According to the 2013 Research and Innovation Performance, human resources and entrepreneurship provide strong building blocks for Greek firms. Greece's innovation strategy should strengthen the links between R&D investment and economic growth, provide incentives to enhance the interaction between the private sector and universities and address bureaucratic obstacles.	0.67 % (revised in 2013 NRP)
Employment rate (%)	55.3 % (2012)	The target of reaching a total employment rate of 70 % by 2020 was difficult to attain even before the crisis. Under the current context, the prospects are even more challenging. However, ambitious labour market reforms described in section 3 and highlighted by the authorities in the NRP, together with new MoU measures to promote employment have the potential, if fully implemented, to reverse the downward trend.	70 %

	Current situation	Development over the previous year	Europe 2020 targets
Early school leaving (%)	11.4% in 2012	Greece performs slightly better than the EU average in early school leaving (11.4% in 2012, having dropped from 15.5% in 2006), in comparison to 12.8% for the EU average in 2012. However the national average masks significant variation between different geographical areas, types of schools and social groups. For instance, the rate for people born abroad lags behind significantly. 2011-2012 change: — 1.7 p.p. Since late 2009, the 'New School' reform is the main umbrella initiative aiming to improve compulsory education and to tackle low performance in basic skills. Structured around 20 broad objectives, it put emphasis on foreign languages, revised curricula, all-day provision, a culture of evaluation, teacher training; reform of special needs provision, a pilot scheme of Education Priority Zones and a 'digital school' pilot scheme.	The national target is 9.7%
Tertiary education attainment (%)	30.9% in 2012	Tertiary attainment rate increased in 2012 to 30.9% but is still lower than the EU average of 35.8% in 2012 and has been increasing relatively slowly over the past decade (25.4% in 2000). 2011-2012 change: +2 p.p. In the field of tertiary education, structural reform legislation voted through the Greek Parliament in 2011 with a large majority remains only partially implemented. The reform includes changes in the governance and financial autonomy of universities, their re-organisation around 'schools' rather than narrowly specialised 'departments', mergers and redeployment of institutions to better serve regional development and labour market needs, internationalisation, implementation of a culture of evaluation, better use of universities to provide lifelong learning opportunities to local and regional populations and better monitoring of inputs and outputs. Reform measures are included in the MoU and are currently in the phase of partial implementation. If fully and appropriately implemented, rationalisation and evaluation measures should begin to rationalise the network of HEIs and improve the quality of higher education.	The national target is 32%

	Current situation	**Development over the previous year**	**Europe 2020 targets**
Reduction in the number of people at risk of poverty or exclusion	3 403 000 (2011)	+ 357,.000 (2008-2011) In 2008 (reference year) the number of people at risk of poverty or exclusion was 3 046 000. On the basis of available statistical data for 2011 (data based on 2010 income), major changes can be observed. After many years of the rate remaining stable, there was a sharp 12 % increase from 2010 (3 031 000) to 2011. The social situation has deteriorated sharply in Greece, especially among young adults. Measures included in the MoU to tackle unemployment and improve the social safety net should therefore be fully implemented.	Reduce by 450 000 the number of people at risk of poverty or social exclusion.
Energy efficiency — reduction in energy consumption in million tonnes of oil equivalent (Mtoe)	n.a. (14 % reduction in final energy consumption between 2007 and 2011 according to the NRP)	Recent final energy consumption reduction has been mostly achieved due to the economic downturn rather than due to energy efficiency measures. However, as energy prices are expected to increase with the 3rd internal market package (regulated tariffs for gas and electricity increased to reflect real wholesale market prices) and the Greek economy still has high energy saving potential (mostly in residential, tertiary and public buildings sectors), energy efficiency investments could be a strong vector of economic recovery. The main barriers are related to the current economic and financial situation: the lack of financing for energy efficiency projects due to high credit risk, a lack of awareness and the capacity of public authorities and market operators, such as construction companies or homeowner associations.	Greece has set an indicative national energy efficiency target for 2020, that foresees a level of final energy consumption of 20.5 Mtoe. This implies reaching a level of 27.1 Mtoe in primary energy consumption. Greece has also set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). It has also expressed it, as required, in terms of an absolute level of primary and final energy consumption in 2020 and has provided information on the basis on which data this has been calculated.

	Current situation	Development over the previous year	Europe 2020 targets
The reduction of greenhouse gas (GHG) emissions in sectors that are not covered by the Emission Trading System (compared to 2005 levels)	- 11% (2011)[3]	In 2011 Greece's non-ETS emissions were -11% compared to 2005, however current projections for 2020 based on existing measures are that Greece's non-ETS emissions would increase by 3%, compared to 2005. According to the latest national projections, the target is expected to be missed (with a margin of 7 percentage points). When currently planned (additional) measures are accounted for, the target would also be missed (with a margin of 3 percentage points). Therefore, the country needs to consider additional domestic measures or make use of flexibility options to achieve its targets. Additional domestic policies and measures could potentially include transport interventions (e.g. the promotion of public transport, etc.), improved energy performance standards for buildings, more efficient heating systems, renewable energy for heating, and more recycling and reduction of waste streams, instead of landfilling and incineration. Also, the related projects financed with the EU structural funds should be completed without delays.	- 4%[4](compared to 2005 emissions, ETS emissions not covered by this national target)
Renewable energy (percentage of total energy use)	As at 2011 (latest available data), the proportion of RES in Greece was 11.6%, well ahead of its 2012/13 interim target. If Greece achieves its 2020 target, this generate 83 000 renewable energy jobs, compared to 59 000 if the EU were to abandon its support for renewables.	The renewable energy support scheme in Greece had granted excessively generous tariffs, in particular for photovoltaic installations, without ensuring the necessary financing. The government has therefore taken a number of ad-hoc measures in 2012 and 2013 that should bring the deficit in the RES account to zero by the end of 2014. It is crucial that the ongoing issue reform process is addressed in a more structural manner, to unlock the economic potential of the sector and avoid placing excessive burden on consumers.	Under Directive 2009/28/EC on the promotion of use of energy from renewable sources, Greece is required to reach a 18% target of renewable energy sources in final energy consumption and a 10% proportion of renewable energy in the transport sector by 2020. In Greece's National Renewable Energy Action Plan, the commitment is made to achieve a 20% target, rather than 18%.

[3] This corresponds to the changes from 2005–10 in emissions not covered by the Emissions Trading System. As the scope of the Emissions Trading System changed between 2005 and 2010, these emissions are estimated on the basis of the main relevant source categories of the United Nations Framework Convention on Climate Change (as opposed to the difference between total emissions and ETS verified emissions).

[4] The national emissions limitation target set in Decision 2009/406/EC (or the Effort Sharing Decision) concerns emissions not covered by the Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

5. CONCLUSION

Greece continues to make progress under the programme in addressing the significant challenges it faces. Its reform plans under the adjustment programme are extensive and ambitious, but implementation risks remain high and full commitment by the authorities remains paramount to consolidate recent improvements. Full implementation of the programme, which has a strong focus on structural reforms is key to ensure progress towards all Europe 2020 targets and for Greece to achieve sustainable growth and create employment.

Implementation risks to the programme are mainly linked to the full implementation of reforms and fiscal measures and to the quick return of economic growth, but there are also some upside risks. Important implementation risks concern the government's ability to resist vested interests, particularly given the vulnerability of the coalition government. Moreover, the recovery of the economy is still facing the headwinds of pronounced fiscal consolidation in 2013 and weak economic growth in the euro area. On the positive side, sustained strong policy implementation will help remove uncertainty and support confidence. The liquidity injection expected from the clearance of government arrears, the initiatives to bring the long-term unemployed to work and a more dynamic tourist season may also contribute more significantly than previously expected. Finally, investment could grow faster with a stronger return of foreign capital and with the restart of major projects such as motorways, if the banking sector is in a position to support them after the recapitalisation. A greater absorption of EU funds and the corresponding mobilisation of national matching funds, taking into account current flexibility arrangements and budgetary constraints, could also make a positive contribution.

ANNEX

Table I. Sustainability indicators

	EL		EU27	
	No-policy change scenario	Programme (SCP) scenario	No-policy change scenario	Programme (SCP) scenario
S2	-2.7	:	3.0	1.3
of which:				
Initial budgetary position (IBP)	-4.3	:	0.8	-0.9
Long-term cost of ageing (CoA)	1.6	:	2.2	2.2
of which:				
Pensions	0.2	:	1.0	1.1
Health care	0.9	:	0.9	0.8
Long-term care	0.8	:	0.6	0.6
Others	-0.3	:	-0.4	-0.3
S1 (required adjustment)*	1.4	:	2.2	0.5
of which:				
Initial budgetary position (IBP)	-5.5	:	0.0	-1.8
Debt requirement (DR)	7.3	:	1.9	1.9
Long-term cost of ageing (CoA)	-0.5	:	0.3	0.4
S0 (risk for fiscal stress)**	0.46		:	
Debt, % of GDP (2012)	156.9		87.0	
Age-related expenditure, % of GDP (2012)	26.5		25.8	

<u>Note</u>:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

<u>Source</u>:
Commission services; 2013 stability programme.

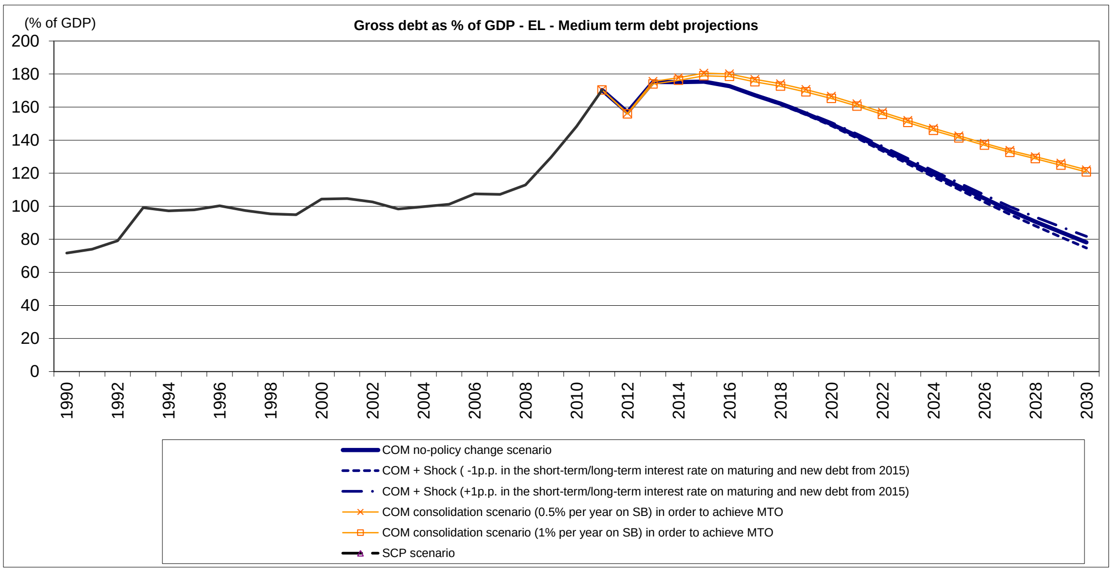

Table II. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	33.7	31.7	32.1	30.5	31.7	32.4
Breakdown by economic function (% of GDP)[1]						
Consumption	12.4	11.6	11.6	10.8	12.3	12.5
of which:						
- VAT	7.6	7.1	7.3	6.5	7.3	7.2
- excise duties on tobacco and alcohol	1.5	1.3	1.2	1.4	1.5	1.8
- energy	1.4	1.2	1.2	1.2	1.8	2.0
- other (residual)	1.8	2.0	1.9	1.8	1.7	1.5
Labour employed	12.0	11.3	11.7	11.0	11.4	10.9
Labour non-employed	0.9	1.0	1.0	1.1	1.0	0.9
Capital and business income	6.8	6.0	6.0	5.9	5.7	5.8
Stocks of capital/wealth	1.6	1.9	2.0	1.7	1.2	2.3
p.m. Environmental taxes[2]	2.3	2.0	2.0	2.0	2.5	2.7
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	50.8	47.2	46.2	39.1	36.5	37.0

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2013) Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table III. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	199.3	213.2	231.8	228.7	228.2
Share of assets of the five largest banks (% of total assets)	69.5	69.2	70.6	72.0	…
Foreign ownership of banking system (% of total assets)	22.2	21.1	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1)]	5.0	7.7	10.4	14.4	20.7
- capital adequacy ratio (%) [1)]	9.4	11.7	12.2	10.1	9.5
- return on equity (%) [1), 2)]	3.2	-1.7	-8.8	-34.2	...
Bank loans to the private sector (year-on-year % change)	9.2	-2.3	3.0	-3.3	-7.4
Lending for house purchase (year-on-year % change)	2.4	3.9	4.9	-2.9	-4.7
Loan to deposit ratio	86.2	79.6	121.7	138.3	136.5
CB liquidity as % of liabilities	9.3	11.0	20.9	30.5	31.3
Banks' exposure to countries receiving official financial assistance (% of GDP)[3)]	9.1	11.2	11.2	14.4	13.7
Private debt (% of GDP)	94.4	92.8	118.1	119.5	119.0
Gross external debt (% of GDP)[4)]					
- Public	82.4	95.4	81.6	75.0	108.0
- Private	10.3	11.5	9.6	8.1	10.1
Long term interest rates spread versus Bund (basis points)*	0.8	2.0	6.3	13.1	21.0
Credit default swap spreads for sovereign securities (5-year)*	114.5	171.7	697.8	3052.7	…

Notes:

[1)] Latest data (September 2012).

[2)] After extraordinary items and taxes.

[3)] Covered countries are CY, ES, LV, HU, IE, PT and RO.

[4)] Latest data 2012Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table IV. Labour market and social indicators

Labour market indicators	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	66.0	66.5	65.8	64.0	59.9	55.3
Employment growth (% change from previous year)	1.4	1.2	-0.6	-2.6	-5.6	-8.3
Employment rate of women (% of female population aged 20-64)	51.6	52.5	52.7	51.7	48.6	45.2
Employment rate of men (% of male population aged 20-64)	80.4	80.4	78.8	76.2	71.1	65.3
Employment rate of older workers (% of population aged 55-64)	42.4	42.8	42.2	42.3	39.4	36.4
Part-time employment (% of total employment, 15 years and more)	5.6	5.6	6.0	6.4	6.8	7.7
Part-time employment of women (% of women employment, 15 years and more)	10.1	9.9	10.4	10.4	10.2	11.9
Part-time employment of men (% of men employment, 15 years and more)	2.7	2.8	3.2	3.7	4.5	4.9
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	10.9	11.5	12.1	12.4	11.6	10.0
Transitions from temporary to permanent employment	5.1	5.9	5.4	3.3	:	:
Unemployment rate1 (% of labour force, age group 15-74)	8.3	7.7	9.5	12.6	17.7	24.3
Long-term unemployment rate2 (% of labour force)	4.1	3.6	3.9	5.7	8.8	14.4
Youth unemployment rate (% of youth labour force aged 15-24)	22.9	22.1	25.8	32.9	44.4	55.3
Youth NEET rate (% of population aged 15-24)	11.5	11.7	12.6	14.9	17.4	20.3
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	14.6	14.8	14.5	13.7	13.1	11.4
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	26.2	25.6	26.5	28.4	28.9	30.9
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	4.0	5.0	4.0	3.0	4.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	6.0	7.0	7.0	5.0	15.0	:
Labour productivity per person employed (annual % change)	2.1	-1.4	-2.5	-2.4	-1.6	2.1
Hours worked per person employed (annual % change)	-1.4	-4.3	2.4	0.9	1.1	-0.2
Labour productivity per hour worked (annual % change; constant prices)	3.5	3.0	-4.9	-3.3	-2.7	2.4
Compensation per employee (annual % change; constant prices)	1.3	-1.1	1.2	-3.7	-4.4	-3.5
Nominal unit labour cost growth (annual % change)	2.6	5.1	6.2	-0.1	-1.8	-6.2
Real unit labour cost growth (annual % change)	-0.7	0.3	3.8	-1.3	-2.9	-5.5

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2006	2007	2008	2009	2010
Sickness/Health care	6.91	6.79	7.37	7.97	8.22
Invalidity	1.14	1.19	1.19	1.30	1.32
Old age and survivors	12.37	12.54	12.89	13.57	14.10
Family/Children	1.48	1.49	1.59	1.83	1.80
Unemployment	1.11	1.09	1.28	1.61	1.71
Housing and Social exclusion n.e.c.	0.53	0.49	0.52	0.50	0.38
Total	24.10	24.14	25.39	27.37	28.16
of which: means tested benefits	1.83	1.80	1.91	1.95	1.88
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	28.3	28.1	27.6	27.7	31.0
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	28.2	28.7	30.0	28.7	30.4
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	30.6	28.1	26.8	26.7	29.3
At-Risk-of-Poverty rate[2] (% of total population)	20.3	20.1	19.7	20.1	21.4
Severe Material Deprivation[3] (% of total population)	11.5	11.2	11.0	11.6	15.2
Share of people living in low work intensity households[4] (% of people aged 0-59)	8.0	7.4	6.5	7.5	11.8
In-work at-risk-of poverty rate (% of persons employed)	14.3	14.3	13.8	13.8	11.9
Impact of social transfers (excluding pensions) on reducing poverty	14.3	13.7	13.2	15.5	13.7
Poverty thresholds, expressed in national currency at constant prices[5]	6120	6292	6425	6598	5786
Gross disposable income (households)	168987	172152	173033	160585	149235
Relative median poverty risk gap (60% of median equivalised income, age: total)	26.0	24.7	24.1	23.4	26.1

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table V. Product market performance and policy indicators

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	1.7	-1.4	-2.5	-2.4	-1.6	2.1
Labour productivity[1] in manufacturing (annual growth in %)	0.6	-16.3	12.7	7.6	-5.0	14.3
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	2.9	-5.4	-0.9	-1.1	13.0	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	3.2	-10.3	-21.0	-22.5	-7.6	1.7
Total number of patent[2] applications per million of labour force	19.4	18.6	17.2	15.7	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	819	819	819	819	819	819
Time to start a business[3] (days)	38	19	19	19	11	11
R&D expenditure (% of GDP)	0.6	n.a.	n.a.	n.a.	n.a.	n.a.
Tertiary educational attainment (% of 30-34 years old population)	25.2	25.6	26.5	28.4	28.9	30.3
Total public expenditure on education (% of GDP)	3.83	n.a.	n.a.	n.a.	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	2.4	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	3.5	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	3.1	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

Source:
Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table VI. Green Growth

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.19	0.17	0.17	0.17	0.17	0.18
Carbon intensity	kg / €	0.81	0.74	0.72	0.70	0.70	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	1.11	1.02	1.05	0.93	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.37	n.a.	0.42	n.a.
Energy balance of trade	% GDP	-2.9%	-3.5%	-4.9%	-3.0%	-4.3%	-2.4%
Energy weight in HICP	%	n.a.	7	7	7	7	9
Difference between change energy price and inflation	%	n.a.	-2.9	14.4	-17.3	15.9	17.9
Environmental taxes over labour taxes	ratio	16.8%	16.3%	15.5%	16.4%	19.4%	n.a.
Environmental taxes over total taxes	ratio	6.7%	6.4%	6.2%	6.6%	7.7%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.20	0.21	0.19	0.16	0.18	n.a.
Share of energy-intensive industries in the economy	% GDP	6.9	6.9	6.9	6.9	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.08	0.09	0.09	0.10	0.11
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public R&D for energy	% GDP	n.a.	0.01%	0.01%	0.00%	0.00%	0.00%
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.00%	0.00%	0.00%
Recycling rate of municipal waste	ratio	10.3%	20.1%	17.7%	18.9%	18.3%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	54.1%	53.5%	51.4%	51.1%	51.1%
Transport energy intensity	kgoe / €	n.a.	0.40	0.37	0.48	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	1.11	1.00	1.35	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	71.3%	73.3%	67.8%	69.1%	65.3%
Diversification of oil import sources	HHI	n.a.	0.19	0.16	0.14	0.16	n.a.
Diversification of energy mix	HHI	n.a.	0.39	0.40	0.40	0.37	0.34
Share renewable energy in energy mix	%	n.a.	5.5%	5.4%	6.1%	7.5%	8.0%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
*Provisional figures provided by DG CLIMA. Final figures will be available on 15/04.
** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.