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Crisis country case study

Greece

This country case study is one of the studies produced under the *ISSA Crisis Monitor* Project

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The International Social Security Association (ISSA) is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide.

The Crisis Country Case Studies are an integral part of the ISSA project to monitor and analyse the impact of the global financial and economic crisis on social security. These studies are based on data and research carried out between June 2009 and the first part of 2010. While every effort has been taken to ensure that the case studies are accurate, the situation in each country is constantly evolving.

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ISSA crisis case study: Greece

Summary

The financial crisis clearly induced a recession in Greece with Gross Domestic Product (GDP) growth hitting -4.5 per cent by Q1 2010 – the sixth successive quarter of contraction. This affected the manufacturing and tourism industries particularly hard. Unemployment rose to a six-year high of 12.1 per cent in Q1 2010, though the most acute impact of the labour market crisis lies among the youth who face an unemployment rate of 30 per cent.

In response, the government cut spending (pensions and public sector wages) and committed US-dollars (USD)5.5 billion to modernize the social security administration and incentivize late retirement (New Social Security Law, April 2008), enhance job creation, reduce unemployment and support the most vulnerable (National Action Plan on Employment, April 2009) and cut government operating expenditures and reform the tax system (Stability & Growth Programme January 2010).

The post-crisis situation will most likely be determined by the International Monetary Fund (IMF)/European Union (EU) USD146 billion emergency financing package accepted by the Greek government in May 2010. The bail-out is intended to help Greece rein in the budget deficit, boost competitiveness and gain the confidence of international credit rating agencies. Moreover, it should set the precedent for a country determined to pull itself out of recession and make the most of recovery when it arrives.

Social security institutions covered

The Ministry of Employment and Social Protection provides general supervision. Managed by a governor and tripartite governing body, the Social Insurance Institute administers programmes through branch offices.

Overview of the social security system

The social security system in Greece is based on two pillars: basic protection and supplementary protection. A number of insurance funds and schemes exist which are governed by various legislative institutions. Benefits and conditions for entitlement also differ from one institution to another, making it a rather complex system.

The principal insurance institution is the Social Insurance Institute-Unified Insurance Fund for Employees (IKA-ETAM) which is the PAYGO insurance scheme covering most salaried workers. In addition, there are special schemes for public employees and certain worker categories including the self-employed and farmers.

The social security system provides the following benefits for employees:

- sickness and maternity benefits;
- benefits for accidents at work and occupational diseases;
- death grants;
- invalidity benefits;
- old-age and survivor's benefits;
- unemployment benefits; and
- family benefits.

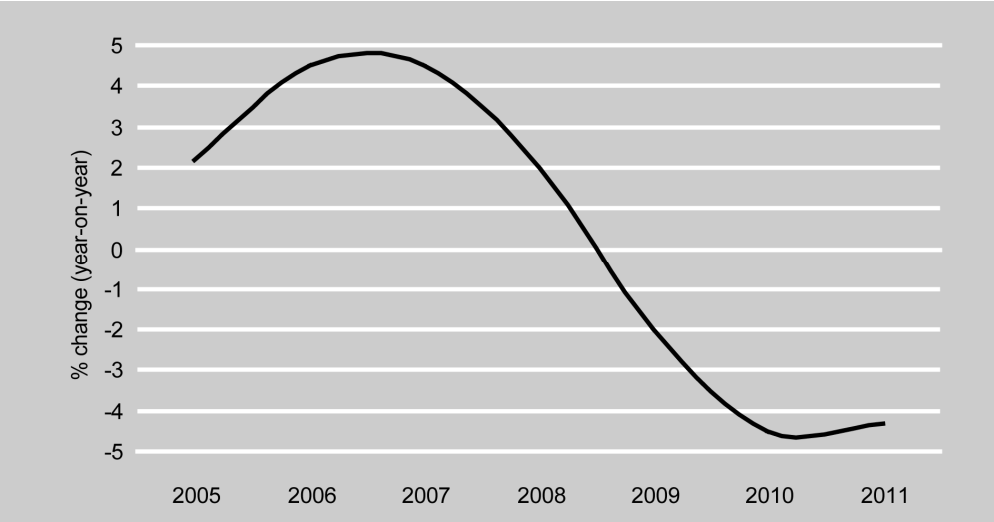
IKA-ETAM administers sickness and maternity benefits and pensions. Unemployment and family benefits are administered by the Manpower Employment Organization (OAED): IKA-ETAM collects the contributions paid for OAED on its behalf.

Impact of the crisis

The economy and labour force

Though the impact was somewhat lagged, like most EU countries Greece's economy and labour market have been adversely affected by the global financial crisis of 2007. From early 2009 the economy contracted and real GDP fell steadily and is predicted to do so until the end of 2010 (see Figure 1).

Figure 1. ***Real GDP growth in Greece (2006–2010)***



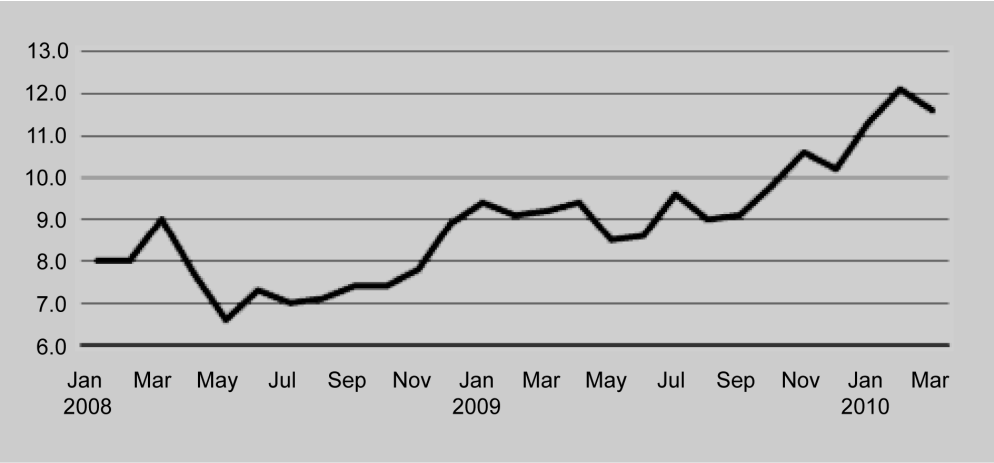
Source: EIU (2010).

Yet, unlike most EU countries the Greek economy remains stuck in recession: GDP shrank by a further 1 per cent quarter-on-quarter in January–March 2010 to -4.5 per cent, the sixth successive quarter of contraction. With reduced demand and consumption, levels of production, exports and trade fell markedly. Retail, textile manufacturing and tourism were hit particularly hard.

The consequences in terms of unemployment have been felt nationwide (and greatest in northern Greece). According to the Ministry of Employment and Social Protection, the unemployment rate escalated from 7.7 per cent in April 2008 to 9.4 per cent in April 2009. As

illustrated in Figure 2, the EU stated that unemployment rose to a six-year high of 12.1 per cent in February 2010.

Figure 2. ***Unemployment (EU harmonized measure) (2008–2010)***



Source: EIU (2010).

Yet the headline figures mask underlying "structural" problems. The unemployment rate for women is nearly two-and-a-half times that for men (12.6 per cent for women compared with 5 per cent for men in 2007), while the rate for new entrants into the job market (aged 15–29) is approximately 30 per cent. With regard to the latter, the consequences for current and future human capital formation are significant.

The debt contagion

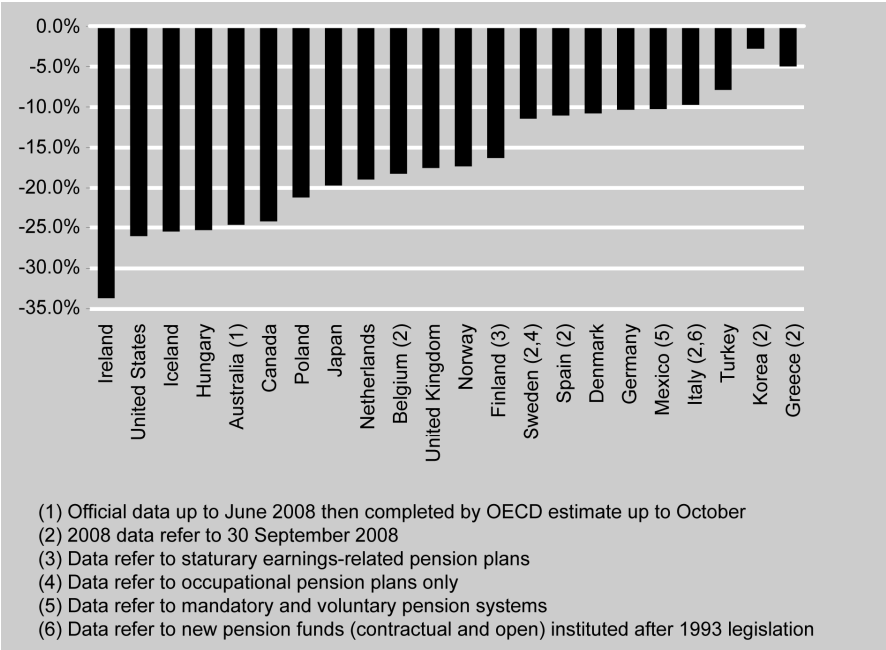
Public debt is another component of post-crisis fiscal stress which reflects a potential negative impact on social expenditure. The stock of public debt is expected to grow to 120 per cent of GDP in 2010 – the second highest of any Organisation for Economic Co-operation and Development (OECD) country.

Significantly, Greece's credit rating was recently downgraded and to meet its debt-servicing obligations for the next two to three years, the government secured an agreement from the IMF and EU on a USD146 billion emergency financing package in May 2010. The sheer scale of the package (46 per cent of the country's 2009 GDP) and the conditions attached to it have raised some concerns about Greece's solvency and growth potential.

Investment performance

Market turmoil has clearly harmed investment performance of social security funds but from a relative perspective, Greece has fared better than most EU and OECD countries (see Figure 3).

Figure 3. ***Real pension fund returns for selected countries (January–October 2008) (percentage)***



Source: ILO (2009).

A glance at Greek pension performance in 2008 shows a fall of roughly 10 per cent – less than half that of the OECD average.

According to the Ministry of Employment and Social Protection, between 2007 and 2008 there have been no substantial changes to the value of funds they administer. Table 1 shows the marginal change in total asset value.

Table 1. ***Pension fund value (USD000)***

	2004	2005	2006	2007	2008
Total assets	27,501,927	32,303,455	36,430,112	36,809,556	39,420,510
Securities	15,879,579	18,565,451	19,830,597	19,228,145	18,962,303
Deposits	10,718,394	12,859,873	15,717,698	16,298,714	18,694,060
Real estate	903,954	878,131	881,818	1,197,922	1,655,162

Source: Ministry of Employment and Social Protection (2009).

However, the pension deficit is estimated at about twice the size of the country's GDP of USD322 billion and is estimated to go bust in less than 15 years if left as it is. The bleak actuarial state of pensions provided the motivation behind a series of deep and broad austerity measures worth USD38.2 billion (an integral part of the bail-out).

Administrative capacity

The crisis clearly worsened Greece's fiscal position and further diminished the capacity of Greek social security and private pension systems to sustain benefit levels. The foreseeable difficulties of the government to administer social security needs meant that the government had little choice but to turn to the IMF and EU for emergency financial assistance. Without external intervention the two-fold problem of rising expenditures and falling revenue would have accelerated the date by which the government would have run out of funds to pay out benefits. The austerity measures now provide Greece with the means to pay benefits while, among other things, demanding large-scale social security reform.

Responses to the crisis

Rather than adopting a single coordinated stimulus package in response to the crisis, the government reacted with a series of staggered expansionary and contractionary measures throughout 2008 and 2009. With European Social Fund support, the Greek government will use the majority of the USD5.5 billion earmarked for the 2007–13 period to reach 1.3 million beneficiaries. Particular emphasis is placed on helping the most vulnerable people and economic sectors (e.g. tourism and construction).

Sweeping pension reform (March 2008)

Despite large trade union demonstrations and strikes across the country, the parliament adopted old-age pension reforms which included freezing pensions for three years and tightening conditions for early retirement. For example, the retirement age for women increased from 60 to 65 and mothers with children who are minors are no longer able to retire before 55 (50 at present).

The New Social Security Law (April 2008)

A new law was passed to overhaul the social security system by consolidating 133 institutions and branches into 13 institutions. Improvements in the quality of services through less bureaucracy and greater Information and communication technologies (ICT) investment are being sought. The law likewise establishes the Social Security Capital for Intergenerational Solidarity (AKAGE), which guarantees social security programmes.

To incentivize late retirement, the pensions of those who continue beyond 35 working years will receive a pension increase of 3.3 per cent for a three-year period. Effective from 2009, pensions of early retirees will decrease by 6 per cent from the current annual reduction rate of 4.5 per cent. For poor households, lump-sum benefits are also made available as a "social coherence allowance". Unemployment benefits will increase to 70 per cent of the minimum wage over the next few years.

National Action Plan on Employment (April 2009)

The plan includes active labour market programmes designed to enhance job creation, reduce unemployment and support the most vulnerable. The government will spend USD390 million in subsidizing employers' social security contributions for four years when hiring young employees and provide specialized training for women and for young people up to 25 years of age.

The OAED also launched an "integrated employment programme" which provides retraining and assistance in re-entering the labour market for persons made redundant from enterprises based in the worst affected areas such as Drama, Ferres, Larisa, Naoussa and Xanthi.

Stability and Growth Programme (January 2010)

A 10 per cent cut in both social security spending and government operating expenditures by 2013 was unveiled. There is also a drive to improve transparency in fiscal management by changing the process of budgeting, monitoring and evaluating its implementation. This includes reforming the tax system and fighting tax evasion by improving auditing activities.

Implemented reforms (approved by Parliament in July 2010)

- Pension reforms were introduced. Among other things these involve an increase in the minimum and statutory retirement age, every three years from 2020, in line with increases in life expectancy.
- Fiscal and administrative reform introduced a three-year budgetary horizon for social security entities.
- Labour reform will make it easier to hire and fire workers by strengthening provisions for flexi-time working, particularly in seasonal industries.
- Health-care reform where patients must pay for their hospital visits out of pocket and have expenses reimbursed by social insurance funds.

Lessons learned

The Greek experience suggests that the role of social transfers as economic and social stabilizers is widely accepted. As an initial response to increased hardship and to soften the impact of the recession, the government extended social security benefits. Consequently, however, the government incurred more debt and the sheer burden of national debt attracted negative attention from key international credit rating agencies and the EU. The question of fiscal responsibility now lies at the heart of social security debate spurring numerous reforms to strengthen the budgeting process and monitoring: for example, online access to budgets to increase transparency and accountability.

In response to mounting international pressure to reduce public debt the government will tackle unsustainable pension spending through two kinds of measures: policies which rationalize expenditure and increase the revenue base such as containing social security contributions evasion; and reform of the pension system. Drastic budget cutbacks are planned (from 12 per cent of GDP to less than 3 per cent) by 2013. If successful, this will enhance the capacity of future generations to deal with economic downturns although this of course will impact significantly on various groups in the present.

Arguably the government has also learned a tough lesson gleaned from past crises by implementing a series of active labour market programmes designed to avoid the costs of re-activating the most vulnerable workers (the young and women). Keeping employees made redundant (on account of their dependence on particular sectors) active within the labour market has been effective. To date about 2,500 former employees of large enterprises have benefited from the OAED integrated employment programmes with positive spill-over effects for the local economy and society.

Conclusion

Greece's debt overhang continues to dominate discussions on public spending, be it social security related or not. Rather than simply revealing the unsustainability of Greek pension funds, the crisis did much to expose long-term public debt and serious budgetary problems and highlighted the capacity of public debt to potentially cause transnational contagion. This provided the backdrop to an eventual loss of confidence in the economy, pension value destruction (10 per cent in 2008) and the IMF/EU bail-out. The challenge for social security in Greece now is to cope with the burden of unpopular austerity measures such as tightening conditions on pensions.

The adverse impact of the crisis on the real economy is clear. In 2008, the initial macroeconomic and labour market impact was rather limited when compared to most EU countries. Yet in 2009 Greece entered a recession (in which it still remains). Though the effect was lagged, industry and service sectors remain subdued and nationwide unemployment doubled from May 2008 to its peak at the end of 2009 (12 per cent).

Nevertheless, the most acute aspect of the labour market crisis lies behind headline unemployment figures. For example, the unemployment rate for new entrants into the job market (aged 15–29) is approximately 30 per cent. In recognition of this problem, the National Action Plan on Employment (2009) was launched with programmes targeted at the most vulnerable groups.

With a forecasted contraction of 4 per cent in 2010, the Greek National Statistics Service is more optimistic than other observers in its outlook (e.g. the Economist Intelligence Unit (EIU) expects 4.6 per cent). Greece's ability to pull itself out of recession (and even cope with another downturn) depends heavily on whether or not the government successfully implements structural changes demanded in the bail-out.

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