Greece

In BEEPS V, the top three obstacles that Greek firms identified in the business environment were competitors' practices in the informal sector; political instability; and electricity issues (Chart 1).

Shadow economy and political instability are major concerns

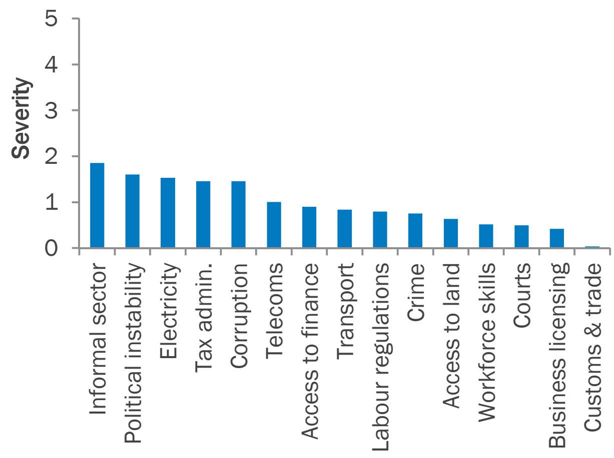
46.6% of Greek firms reported **competing against firms in the informal sector**, exceeding the average for the EU-13 countries covered in BEEPS V by almost six percentage points (Chart 2). Informal activity has long been a feature of the Greek economy, but it has been fuelled by both cash-strapped businesses trying to save on social security contributions to the state and desperation among job seekers since the crisis began. According to some estimates, the informal economy accounts for about a quarter of GDP.

Political instability has emerged as one of the most severe obstacles for Greek firms. Since the global financial crisis led to the Greek recession in 2009, five general elections have taken place and six different prime ministers (including the caretaker ones) have held office. This brought about frequent changes in policies, including to tax rules, and multiple standoffs with the country's creditors, which in turn created uncertainty for businesses.

When it comes to **electricity**, Greece lags behind the EU-13. Power outages experienced by Greek firms were, at 5.2 hours, on average longer than those endured by their EU-13 counterparts (three hours). The resulting losses were also somewhat higher: 3.4% of total annual revenue, compared with 2.8% for the EU-13 (Chart 3). However, electricity issues were ranked as the third most severe constraint named by Greek firms. This could be linked to the fact that Greece has one of the highest electricity prices for medium-sized industrial consumers in the European Union. They are remarkably higher than in the EU-13 and were above the EU-28 average until the second half of 2015.

Tax administration was also one of the top concerns in the country, particularly for large firms: 65% of them were visited or inspected by tax officials, compared with 53.6% in the EU-13. According to European Commission estimates, more than one-third of the potential VAT collection is lost in Greece due to fraud, tax evasion and avoidance. The debt crisis has led to drastic tax increases to improve government finances and about 50 changes in tax rules between 2013-15. Many businesses moved to lower tax jurisdictions such as Bulgaria or Cyprus. According to Bulgarian authorities, the number of Greek-owned businesses based in Bulgaria has risen by 15,000 since 2010. However, the principal activity for some of them might still be located in Greece, making them tax avoiders.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Competition from the informal sector

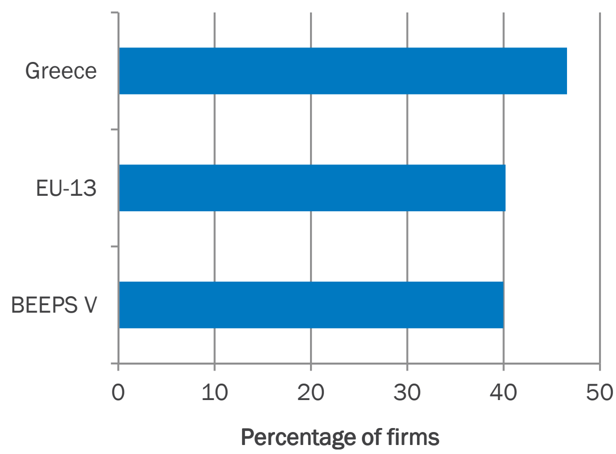
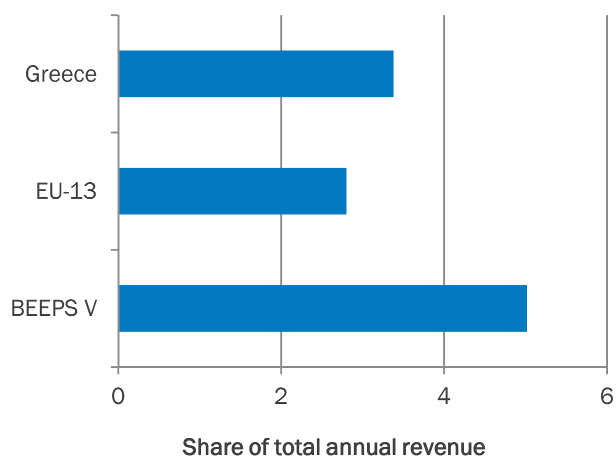


Chart 3. Losses due to power outages



Survey fieldwork period: March 2016 – August 2016. EU-13: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia. Small and medium-sized enterprises (SMEs) have 5-99 employees. Young firms are less than 5 years old.