Executive summary

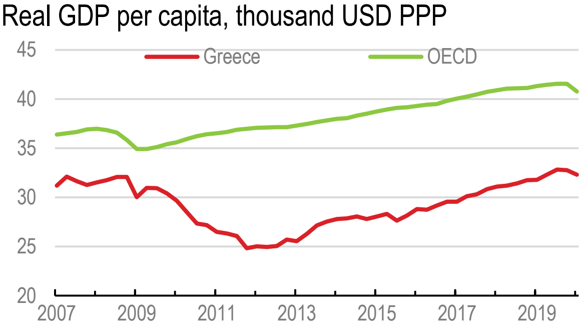
The COVID-19 shock abruptly interrupts Greece's recovery

Greece has responded swiftly to the pandemic and has effectively limited infections, but the economy has been hit hard. As in other countries, containment measures, travel restrictions, social distancing and high uncertainty have led to a temporary but extraordinary drop in production and large loss of tourism demand and employment (Table 1). The government has responded with substantial packages to strengthen the health system, buttress incomes and liquidity, and support and restart sectors most affected by the shock, such as tourism. To reinvigorate the recovery, the government has set out an ambitious reform programme focused on boosting growth and investment.

Before the pandemic hit, the Greek economy had been expanding for over three years at just below 2% average annual growth. Structural reforms, high primary budget surpluses and debt measures by European partners had sustained Greece's recovery and rebuilt confidence (Figure 1). Rising goods and tourism exports had supported growth and jobs, reducing unemployment and buttressing private consumption.

Figure 1. GDP per capita has recovered from the crisis

Real GDP per capita, thousand USD PPP



Source: OECD *Economic Outlook* database.

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Table 1. The COVID-19 pandemic has derailed the recovery

(Annual growth rates, %, unless specified)

Double-hit scenario	**2019**	**2020**	**2021**
Gross domestic product	1.9	-9.8	2.3
Total consumption	1.0	-6.5	3.0
Gross fixed capital formation	4.5	-17.3	11.0
Exports of goods and services	4.9	-13.6	-1.3
Imports of goods and services	2.8	-10.8	0.5
Employment	2.2	-3.8	-1.8
Harmonised consumer price index	0.5	0.1	0.0
Current account balance (% of GDP)	-1.4	-0.6	-0.4
Single-hit scenario	**2019**	**2020**	**2021**
Gross domestic product	1.9	-8.0	4.5
Total consumption	1.0	-5.0	4.6
Gross fixed capital formation	4.5	-14.3	7.8
Exports of goods and services	4.9	-11.1	8.7
Imports of goods and services	2.8	-8.2	9.7
Employment	2.2	-3.5	-1.0
Harmonised consumer price index	0.5	0.2	0.4
Current account balance (% of GDP)	-1.4	-0.6	-0.6

Source*:* OECD *Economic Outlook 107* database. The "single-hit" scenario assumes that the pandemic is brought under control before the summer of 2020; the "double-hit" scenario assumes a second wave of contagion and lockdown measures late in 2020.

In recent years, Greece has exceeded its fiscal targets and the current account deficit has narrowed. Increased revenues and better control of expenditure contributed, before the pandemic outbreak, to sustained and substantial primary budget surpluses, rebuilding fiscal credibility. Greece has successfully returned to the international bond market and rating agencies have raised its sovereign rating. The economy has become more open, although the COVID-19 shock is projected to hinder export growth.

The public debt ratio is projected to rise from already high levels due to the extraordinary fall in nominal GDP and, to a lesser extent, fiscal support following the COVID-19 shock. As the economy resumes its recovery, and the budget shifts gradually back to a primary surplus, the public debt ratio is projected to start declining again, helped by low interest rates. The European Central Bank's decision to include Greek government securities in its asset purchase programmes have contained bond yields below the levels of mid-2019.

Past labour and product market reforms have improved Greece's price competitiveness, and will stand Greece in good stead when domestic and foreign demand recover. In early 2019, Greece increased the minimum wage for the first time in many years and ended the subminimum wage. This boosted incomes without any obvious negative employment effects prior to the COVID-19 shock. Following the COVID-19 shock, the 2020 review of minimum wages has been deferred to early 2021. Mechanisms to extend sectoral collective agreements to non-signatory workplaces have been reintroduced, while conditional opt-out arrangements were introduced in late 2019.

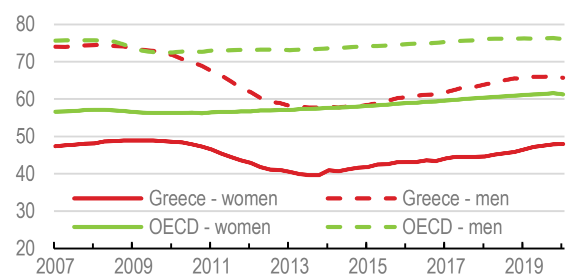
The COVID-19 shock adds to Greece's challenges

The COVID-19 shock risks exacerbating Greece's long-standing labour market challenges. The employment rate has increased over the past six years but is still one of the lowest among OECD countries and wages are low (Figure 2). Women and the young continue suffering from low employment rates. The dearth of child and elderly care centres restrict women's job opportunities as caregiving responsibilities often fall on them. The lack of prospects has pushed many talented young people to emigrate, lowering the country's entrepreneurial and innovation potential. Difficulties of integrating migrants into the labour market and education system together with limited support from other EU countries to deal with the large influx of asylum seekers compound these challenges. The COVID-19 crisis risks aggravating these problems as job growth has collapsed and a large number of discouraged job-seekers have left the labour force.

Poverty and material deprivation, while improving, are high, especially among the young and families (Figure 3). Following past reforms, Greece's social protection system was much better prepared to deal with a large shock than at the onset of the global financial crisis. The government's temporary income support measures have buffered household incomes from the COVID-19 shock. However, despite improvements in recent years, poverty rates among the young and families with children remain high while retirees fare significantly better. This and the large impact of the COVID-19 shock on the working age population and the young further underline the need to address the intergenerational imbalances of the social protection system. Pension payments as a share of GDP remain among the highest across OECD countries. Policy changes in mid-2019 will raise pension spending further over the short term, even as earlier extensive reforms will significantly reduce its weight on the economy over the medium- and long-term. The COVID-19 shock makes the need to continue modernising Greece's social protection system manifest so as to better target anti-poverty programmes to people in need and significantly strengthen retraining schemes.

Figure 2. Employment rates are low, especially for women

Employment rates, % of working age population, s.a.



Source: OECD *Main Economic Indicators* database.

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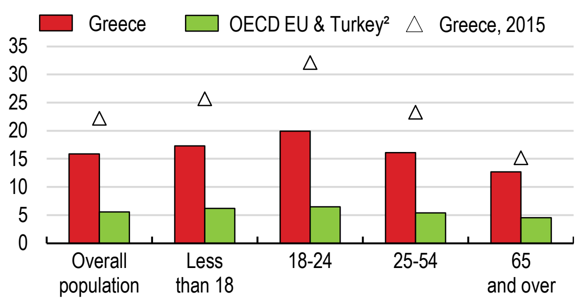
Economic activity, though shifting gradually to tradable sectors, is still concentrated in traditional and low-innovation sectors, contributing to low productivity growth. Small and low productivity firms continue to play an outsized role in the economy. Despite recent progress, such as the digitalisation of the public administration, high tax burdens, red tape, low quality regulations and a slow justice system mar the business environment, discouraging domestic and foreign investment and preventing businesses from thriving. Banks' non-performing loans (NPLs) were falling before the COVID-19 shock but they are still high, curtailing banks' capacity to finance investment. The severe liquidity constraints many firms are facing following the COVID-19 shock risks increasing NPLs further. The government has introduced temporary credit lines and guarantees to address this challenge. Nonetheless, it remains urgent to durably lower NPLs on banks' balance sheets.

People in Greece have good health but environmental quality and housing detract from people's overall life satisfaction. Air pollution in metropolitan areas is high, exposing a larger share of the population than most OECD countries to health risks. Waste treatment is over-reliant on landfills and illegal dumping is still common.

Figure 3. Poverty rates are highest among the young

Percent of population groups living in households reporting severe material deprivation, 2019 or latest year



Source: Eurostat.

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Ambitious and comprehensive reforms are key to overcoming the COVID-19 shock and durably raising well-being

The pandemic makes the short-term outlook highly uncertain. The government's COVID-19 responses announced to date will support incomes and firms into 2021. A second outbreak would further curb tourism and service demand, and call for extending the government's support. Aiding businesses and their workers to upgrade their activities and skills and to shift to sectors that promise better opportunities will accelerate the recovery and make the economy and society more resilient.

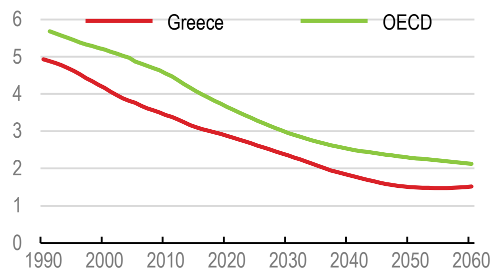
Once the COVID-19 emergency recedes, Greece can again focus on a programme of medium-term transformation to reinvigorate its recovery with stronger and inclusive growth. The government is working on a reform programme to achieve four policy objectives: protect the economy from the COVID-19 shock; achieve a sustained economic recovery; raise long-term growth; and improve inclusiveness. Consistent with this programme, this Survey puts forward an ambitious reform package to support stronger employment, productivity and investment and raise well-being. This package includes measures to encourage and help more people find jobs, boost innovation while lowering and sharing more fairly the burden of taxation and improving the public administration. These measures would increase annual trend GDP growth by 1 percentage point by 2030. Higher growth and a sustained primary budget surplus of 2.2% of GDP would ensure the debt-to-GDP ratio declines steadily into the long term.

Repair of the banking system needs to accelerate. The government is implementing a new asset protection scheme (Hercules) to help banks to dispose of the large stock of non-performing loans. The plan is expected to lower banks' non-performing loans significantly over the next two years. However, the COVID-19 shock has slowed progress, and further action is needed to address the large stock of non-performing loans that will remain and improve the quality of banks' capital.

Increasing productivity growth is key to raising living standards and offsetting the large negative effect of demographics (Figure 4). Raising productivity growth will require additional efforts to reduce barriers to competition, especially in professional services, including notaries, lawyers and retail sales of medicines, and increasing the efficiency and effectiveness of the public administration (including the justice system). This would contribute to enhance the rule of law, thus reducing the costs and uncertainties of doing business in Greece, attracting more foreign direct investment, and helping to rebuild trust in public institutions. The government's efforts to reduce red tape, raise accountability and efficiency in the public sector, including through the use of digital technologies, are welcome, and demonstrated their effectiveness during the COVID-19 shutdown period. Efforts to prevent and prosecute corruption need to be pursued following international best practices. The recent establishment of the independent National Transparency Authority goes in the right direction.

Figure 4. The population is ageing fast

Ratio of the working-age population (15-64 years) to the population aged 65 years and over)



Source: Eurostat, OECD *National Accounts* and United Nations *World Population Prospects* 2019 databases.

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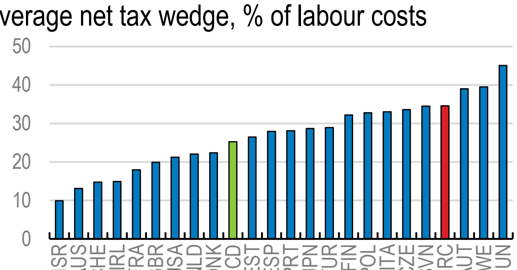
The quality of public spending needs to further increase along with the fairness and efficiency of the tax system. Further improving the design and implementation of effective spending reviews and ensuring the results are available early in the budget cycle would help reallocate resources to more effective public programmes and public investment. Further broadening of the tax base, by continuing to improve voluntary tax compliance, and fighting tax evasion are key to lowering high statutory tax rates, making the tax system fairer and safeguarding fiscal credibility (Figure 5). Reducing the high employers' social security contribution rates, especially at low incomes, would support employment and reduce informality.

Figure 5. The labour income tax wedge is high

Average net tax wedge, % of labour costs



Note: At 50% of average wage, one-earner married couple without children, 2018 policies.
Source: Joint EU Commission and OECD, "OECD Tax Wedge and Effective Tax Rates on Labour" (VS/2015/042, DI150030).

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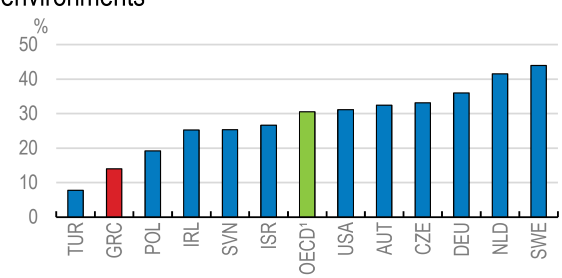
Strengthening active labour market programmes, education and professional training would improve the workforce's ability to adapt to the COVID-19 shock and to a changing labour market. Workers' skills often do not match employers' needs, while those out of work are at risk of long-term unemployment (Figure 6). Boosting the capacity of public employment services would improve job matching and jobseekers' access to skill training. Public works programmes help the very-long term unemployed to maintain work habits but there is ample scope to enhance skills so as to improve enrolees' job prospects. Implementing the active labour market and social inclusion pillars of the Guaranteed Minimum Income scheme would improve beneficiaries' chances of sustained gains in income through work. Ensuring firms can use promptly and effectively, if eligible, the newly introduced opt-out clauses in sectoral collective agreements would improve the link between wages and productivity and give workplaces more flexibility while supporting social dialogue.

Figure 6. Adult skills need to be upgraded

Share of 15-65 year olds scoring well (at least proficiency level 2) in problem solving in technology-rich environments



1. Average of available OECD countries
Source: OECD Programme for the International Assessment of Adult Competencies (PIAAC), 2012, 2015.

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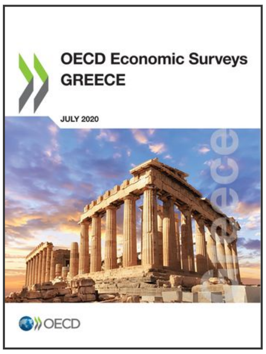
Education is valued highly in Greece, but it translates poorly into readiness for work, and a low share of adults engage in lifelong learning. Overdue steps are being taken to improve the quality of school education, by providing teachers with some autonomy and appraising performance. Regularising the large temporary teacher workforce with contracts that reward performance and provide career prospects, while avoiding the rigidities of current contracts, would raise teachers' morale and teaching quality. Reforms to post-secondary education can offer the prospect of improving vocational education and providing adults with access to lifelong learning and skill training. Developing adults' digital skills is particularly urgent, given the looming risk to jobs from digitalisation and automation.

MAIN POLICY FINDINGS	KEY RECOMMENDATIONS
Responding to the COVID-19 shock while promoting inclusive growth	
The COVID-19 pandemic has set back Greece's recovery. The government has responded swiftly with temporary measures to support households' incomes and firms' liquidity. The COVID-19 crisis adds to the need to improve the efficient reallocation of resources to boost productivity and ensure a durable recovery. Over recent years fiscal consolidation has improved fiscal credibility, supported by progress in fighting tax evasion and improved tax administration. However, statutory tax rates are high while the tax base, despite progress, remains narrow. The government has reduced tax rates and plans further reductions.	Extend exceptional fiscal support measures as needed based on epidemiological and economic developments while ensuring they do not hinder the reallocation of resources towards firms and sectors with better growth prospects. Continue to fight evasion and enlarge the tax base so as to lower statutory tax rates.
The quality of public spending remains low despite recent improvements. Public investment has been cut and programme evaluations are still little used. The government plans to use spending reviews more regularly and to introduce performance budgeting.	Boost public investment to support growth and environmental sustainability, including in public transport, innovation and waste management, based on cost-benefit analysis. Ensure results of spending reviews are available early in the budget cycle.
The efficiency and capacity of the public administration is improving but remains weak in many areas, undermining the quality of public services, imposing costs on citizens and firms.	Pursue plans to accelerate the digitalisation of the public administration.
Banks' non-performing loans (NPLs) have fallen but they are still high by historical and international standards, curtailing banks' capacity to lend. A large share of banks' capital consists of deferred tax credits. The Hercules asset protection scheme is expected to reduce substantially the stock of NPLs, but a large volume will remain. The insolvency system is highly fragmented, resulting in a large number of strategic defaulters and slowing the resolution of NPLs.	Swiftly implement the Hercules scheme to dispose of non-performing loans from bank balance sheets. Urgently design and implement a strategy to address the deferred tax credits and bad loans that will remain on banks' balance sheets. Unify insolvency proceedings, ensure a better balance between the rights of creditors and debtors and accelerate enforcement of collateral.
A large share of the urban population is exposed to dangerous levels of air pollution, detracting from their well being. Fossil-fuel support measures are high and amount to about 25% of energy taxes. Effective tax rates on CO2 emissions from energy use are high compared with other OECD countries but they vary across fuels and uses, blurring price signals.	Adopt and implement a national air pollution control programme and improve the air quality monitoring system. Review tax variation across fuels to provide a consistent carbon price signal. Review and abolish environmental harmful subsidies with outdated objectives or that are most harmful to the environment.
Major reforms over 2010-2016 significantly improved the sustainability of the pension system but spending on pensions remains high. Changes in 2019 will increase pension spending in the short term. Despite recent improvements, poverty rates among the young and family with children remain high, highlighting the intergenerational inequities of the social protection system.	Ensure pension spending does not crowd out other, better-targeted, social programmes and public investment.
Promoting productivity and innovation	
R&D spending has increased, driven by businesses but continues to be low. Despite increased government support, research and innovation policies are complex and fragmented, detracting from the general research environment. Research productivity is low and links between universities and industry are underdeveloped. Difficulties in obtaining public grants or subsidies are one the most important hurdles for innovative activities reported by Greek firms.	Consolidate agencies responsible for research and innovation policies. Simplify access to R&D grants and tax incentives.
Product market reforms have progressed in some areas. Administrative burdens on start-ups are among the lightest in OECD countries and barriers to competition in network services are close to the OECD average. In some other areas, such as professional services, regulatory barriers still restrict competition. Regulatory Impact Assessments are still little used.	Accelerate the codification of existing laws and regulations. Lower product market regulation in professional services, especially for notaries, lawyers, civil engineers and architects, and retail distribution.
The court system is slow and overburdened with a backlog of cases. Digital technologies, though progressing, are still little used and courts' performance indicators are lacking. Alternative dispute resolution mechanisms are underused because of lack of awareness and trust.	Improve judicial efficiency through more training of staff and judges and using courts' performance indicators. Better communicate the availability and benefits of alternative dispute resolution mechanisms.
A more inclusive and better performing labour market	
High taxes and social insurance contributions stifle employment and discourage formalisation, especially for low-income workers and vulnerable groups. Some recent policy changes may widen differences in effective tax rates between employment types.	Reduce social insurance contribution rates, especially at low incomes, while aligning taxation across employment types.
The Guaranteed Minimum Income and other social protection reforms are reducing the depth of poverty but poverty rates remain high, including for those in work.	Increase Guaranteed Minimum Income transfers, taper them more gradually and introduce in-work benefits for low-wage workers.
Education is highly valued in Greece, but many secondary school students lack basic skills. Reforms are developing schools' autonomy and quality assurance but teachers still lack opportunities to raise their skills or recognition for their performance.	Progressively move the teacher workforce onto longer-term contracts that support and reward performance and avoid the rigidity of the existing permanent contracts.
Unemployment is falling but remains high while employers often cannot find workers with the skills they need. Job-search and training programmes provide little support for re-skilling and matching jobseekers with jobs.	Employ more specialised counsellors and profiling tools in public employment services to significantly improve job-search and training support, linking them better with private job-search agencies.
Policies to support families and facilities for child and elderly care are underdeveloped. Caregiving obligations impede many from working, contributing to low fertility rates.	Boost policies to support families, prioritising expanded access to quality care for children and the elderly.



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