1 Key Policy Insights

Greece has rebounded from the COVID-19 crisis, through a revival of tourism and other exports, a strong investment rebound, substantial public support and implementation of the Greece 2.0 Recovery and Resilience Plan, and improving competitiveness and dynamism following a decade of reforms. Headwinds from the surge in global energy prices and Russia's war of aggression against Ukraine have slowed this rebound. This chapter presents priorities to ensure that a sustainable recovery continues over the longer term. Achieving and maintaining modest primary budget surpluses will support debt sustainability and improve the prospects of Greece achieving an investment-grade sovereign rating. They can be achieved while supporting growth through better allocating spending and public resources, and maintaining public revenues while further broadening the tax base, improving collections and addressing distortions. More flexible work environments and wage setting, and a strong push to expand participation in quality skill training, can boost job creation and support workers' productivity. Completing the restoration of banks' health, while developing alternative sources of finance, will help finance new private investments. Ensuring markets are more competitive, and continuing efforts to improve the business climate, such as increasing the justice sector's responsiveness, can further raise firms' willingness to invest in the emerging opportunities in Greece.

Introduction

Greece's economy rebounded well from the deep COVID crisis. Substantial government and EU support measures, lower interest costs, a revival in tourism receipts, households' rising confidence and spending, and improving foreign investment and construction activity drove the rebound. Exports of goods and services have been rising and diversifying, reflecting Greece's improving competitiveness. The government has continued its reform programme, designed to address many of the country's long-standing structural challenges. These developments have supported strong employment growth, returning unemployment rates to decade-lows, and supporting households' incomes. The rebound has boosted government revenues, allowing the government to reduce the budget deficit and to return the public debt-to-GDP ratio to its level at the onset of the COVID crisis. The improved fiscal situation and progress in policy reforms agreed with the European institutions led in August 2022 to Greece exiting the 'Enhanced Surveillance' following its financial support programme.

However, mounting headwinds from the surge in global energy prices and global supply disruptions, amplified by the war in Ukraine, and tightening monetary conditions are reducing global growth and slowing Greece's recovery. Energy and food prices drove headline inflation to 25-year highs, and supply bottlenecks are lifting prices more broadly. The pressure on real incomes and uncertainty are compressing demand, delaying investment and setting back recent gains for vulnerable households (Figure 1.1). Fiscal measures to buttress energy costs are absorbing scarce fiscal space. Following a substantial increase in the minimum wage, wages risk accelerating, slowing employment growth and entrenching higher inflation.

To sustain growth beyond the post-COVID rebound and the surge in commodity prices, Greece needs to make further progress in tackling both long-standing and looming challenges. Recent improvements in investment, the business environment and the public sector will need to continue to sustain growth as population ageing reduces the labour force and the boost to growth from completed reforms fade. In addition, climate change is already leading to increasing natural disasters in Greece. Transitioning to a net zero emissions economy will require substantial investments by businesses, households and the public sector to transform the entire energy system, improve energy efficiency and limit other emissions. Reviving investment will be also essential for firms to seize emerging opportunities, both in terms of the green economy transition and those created by digitalisation. These needs are against a background of years of insufficient private investment to even maintain firms' existing capital stock, held back by banks' poor health and firms' reluctance to invest.

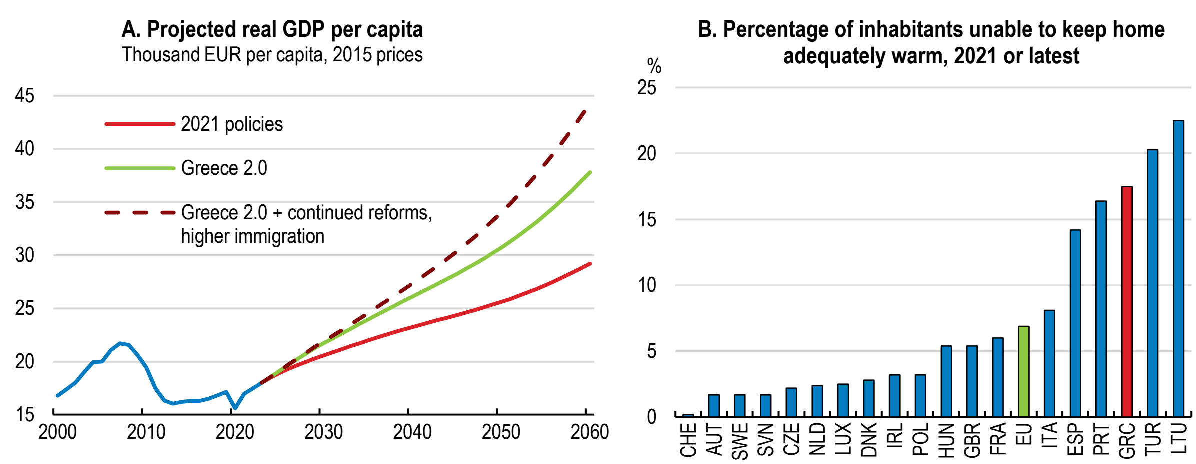
While Greece is reducing its high rates of poverty, its economy still leaves too many groups behind. The young in particular are burdened by the legacies of the past crises, including high public debt, weak private investment and sizable if decreasing social security contributions to finance the pension system. The share of youth in work lags other OECD countries, despite gains since the end of the COVID epidemic. Legal reforms are improving gender equality but, in practice, and despite progress in recent years, relatively few women earn an income from work. Greece benefits less than it could from the skills of its substantial foreign-born workforce, even as employers across a growing number of sectors report increasing difficulties recruiting staff with both specialised and general skills.

To address many of these challenges, the government is implementing the ambitious 'Greece 2.0' reform and investment plan for 2021-2026. It prioritises improving the business climate, advancing digitalisation, supporting the green economy transition and improving Greece's human capital. If well implemented, this plan will substantially raise growth prospects and incomes (Figure 1.1). Funded through the NextGenerationEU facility, Greece is among the EU countries most advanced in achieving its plan's early goals and accessing its funds. Implementation challenges are likely to grow as the plan advances to its more technically and politically ambitious reforms and complex investment projects. In recent years Greece has implemented only parts of its planned public investments and much of its extensive reform agenda has taken longer to put in place than originally envisaged. Realising the full potential contribution of 'Greece 2.0' to longer-term prospects will require a concerted effort to improve how the public sector operates and delivers. This Survey sets out recommendations to support the government's longer-term objectives beyond the Greece 2.0 Plan, which would sustain the recovery, raise incomes and achieve the green economy transition.

Against this background, the main messages of this Survey are:

- Restoring the budget to primary surpluses is appropriate, especially given decreasing spare capacity and rising inflation. Effectively implementing the Recovery and Resilience Plan, making the revenue mix broader and more equitable, and improving the public sector's performance would allow public finances to better support investment, incomes and inclusiveness. Limiting the budget's gross financing needs and reducing public debt are essential for Greece's sovereign debt to be upgraded to investment grade, which would expand financing and investment.
- Raising private investment is paramount for a lasting recovery. Fully restoring banks' health, by clearing remaining non-performing loans and rebuilding their capital bases, is necessary for banks to finance sustained growth, and should be complemented by developing alternative sources of finance. Restoring firms' willingness to invest and encouraging them to grow is key into the longer-term.
- Achieving net zero emissions by mid-century and adapting to a warmer climate will require sustained policy efforts for many years. A mix of policies, including investments, regulations and emissions pricing can accelerate cost-efficient emission cuts and raise additional revenues for the green transition. Complementary public investments, predictable and gradually tightening environmental regulations, and financial support measures can leverage more private capital and reduce the costs to lower emissions.

Figure 1.1. Continued investment and reforms would support growth and help Greece to transition to a greener and more inclusive economy



Note: The 'Greece 2.0' and 'continued reforms' policies are described below, in Table 1.6. The 'baseline policies' include the reduction in corporate income tax and personal income tax and social contribution rates, and the effects of the guaranteed minimum income and reform family benefits on inequality. The 'energy transition' entails renewable sources producing 70% of energy needs by 2030 and 100% by 2050.
Source: Simulations based on the OECD's Global Long-Term Model and Eurostat population projection scenarios; and Eurostat.

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Box 1.1. Greece's ongoing reform programme

Through the COVID crisis and recovery, Greece has continued its ambitious agenda of structural reforms. Many of these reforms are intended to address the priorities highlighted in this and previous Economic Surveys of Greece, as reflected in the tables on Past OECD Recommendations and Actions Taken throughout this chapter. Among the extensive completed and ongoing structural reforms, key measures include:

Investment climate and access to finance:

- Ongoing public sector digitalisation and administrative simplification. Support for the development of digital infrastructure and systems in the private sector.
- Development law reforms that reduce some regulatory processes and provide targeted measures to support investment and growth of key sectors, such as in tourism, research and competitiveness and the transition from lignite.
- Reductions in income tax rates and reformed property taxes (discussed below).
- Incentives for the self-employed, micro, small- and medium-sized firms to achieve economies of scale, through mergers, conversions, acquisitions, and new cooperation schemes.
- Finalised insolvency reforms, extension of the Hercules scheme to securitise non-performing loans, and funding of measures to support financing of private investment.

Labour markets, education and vocational training:

- Reformed labour law to support more flexible work arrangements and teleworking.
- Reformed public employment service and introduction of a mutual-obligation framework.
- Expanded access to early childhood and pre-school education.
- Reformed schools' curricula, including to strengthen the role of workplace experience and vocational content.
- Introduced assessment frameworks for schools that will be extended to teachers. Increased schools' and universities' autonomy. Employed on permanent contracts over 11 000 teachers.
- Digitalised the education system, in terms of infrastructure, service delivery, and educational content.
- Introduced a defined contribution supplementary pension system.

Public sector management:

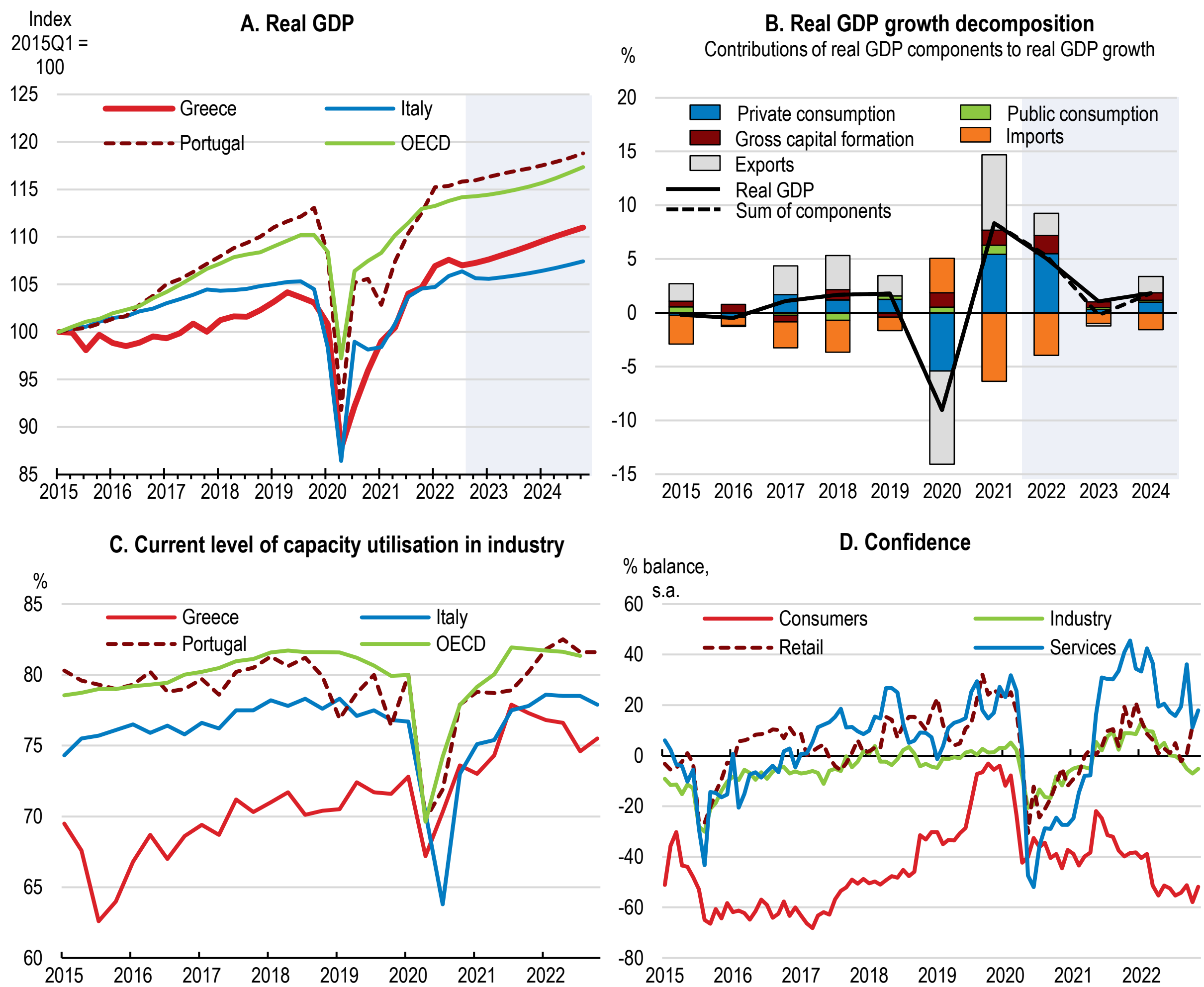
- Reforms to recruiting, evaluating, training, and rewarding staff are underway. The branches and specialisations of public servants, and the classification of their qualifications has been streamlined.
- Registering and simplifying administrative procedures, linked to the digitalisation agenda.
- To support the new human resource management system, completed digital organisation charts for all public entities, and job descriptions for all posts.

External headwinds are slowing Greece's recovery

After a strong rebound from the COVID crisis, headwinds are mounting

Greece has rebounded from the COVID crisis, and by late 2021 activity had returned to its 2019 level (Figure 1.2, Panel A). Private consumption rebounded (Figure 1.2, Panel B) as COVID-related restrictions were relaxed and vaccinations progressed (Figure 1.3), the government increased transfers and other support measures and households started to draw down the savings they had built during the shutdowns. This lifted activity in retail and food services, as well as manufacturing. Overall, the recovery in demand has reduced spare capacity and bolstered consumer confidence to the highest level since the economic crises of the late 2000s (Figure 1.2, Panels C and D). Businesses have been adding jobs, lifting the share of the population in work to the levels of the early 2010s.

Figure 1.2. Greece's recovery from the COVID crisis has been strong



Note: Panel C: Aggregation of businesses' answers to the question "At what capacity is your company currently operating (as a percentage of full capacity)?"; OECD unweighted average excludes Australia, Canada, Chile, Costa Rica, Iceland, Israel, Japan, Korea, Mexico, and Türkiye. Panel D: Answers obtained from the surveys are aggregated in the form of balances, constructed as the difference between the percentages of respondents giving positive and negative replies.
Source: OECD Economic Outlook 112 (database), updated; OECD Main Economic Indicators (database); and Eurostat.

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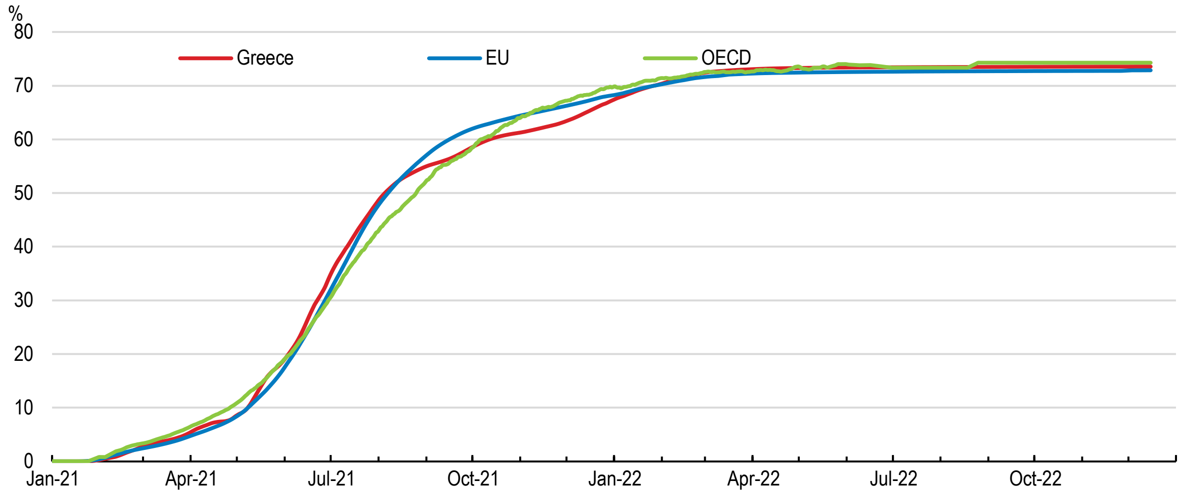
Figure 1.3. The COVID-19 vaccination rate is similar to other OECD countries

Share of people fully vaccinated against COVID-19, 7-day moving average



Source: Our World in Data.

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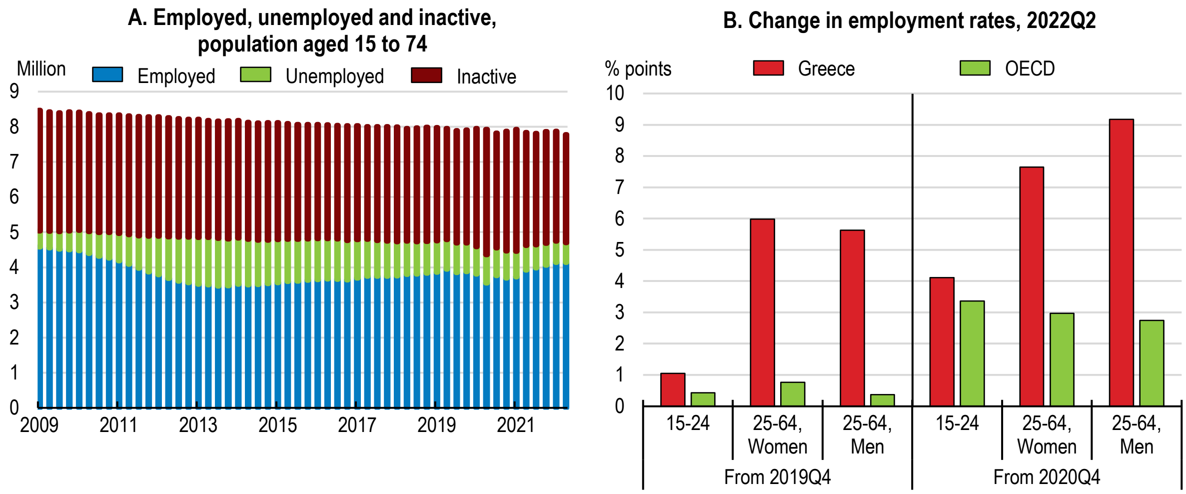
Investment accelerated through 2021. New investment has been evident in rising construction activity, which is starting to recover after having fallen to one of the weakest levels of any OECD country over the 2010s. Demand from households upgrading their dwellings, preparing apartments for short-term rental and motivated by accelerating real estate prices, initially drove the rise in construction. The recovery in investment and construction has been broadening as the government started implementing projects in its "Greece 2.0" Recovery and Resilience Plan (discussed in Box 1.2 and through this *Survey*), and through record net foreign direct investment flows into real estate in addition to manufacturing and services. However, the acceleration in the costs of investments means that higher investment spending translates into less additional real investment.

Strong employment growth has accompanied the rebound in activity and lowered the unemployment rate (Figure 1.4). The number of workers rose by 2.5% in the year to October 2022, and by over 6% compared with the end of 2019. Employment growth has been stronger in primary and goods-producing sectors and in the public administration than in service firms. The overall unemployment rate fell to 11.6% in October 2022, its lowest since 2010, following only modest rises during the COVID crisis as workers who lost their jobs temporarily moved out of the labour force (Figure 1.4, Panel A). However, those who had previously worked benefited more from these gains than those new to the workforce (Figure 1.4, Panel B and discussed below).

Figure 1.4. Employment is rising but requires continued efforts to ensure the young benefit



Source: OECD (2022), Short-term Labour Market Statistics (database).

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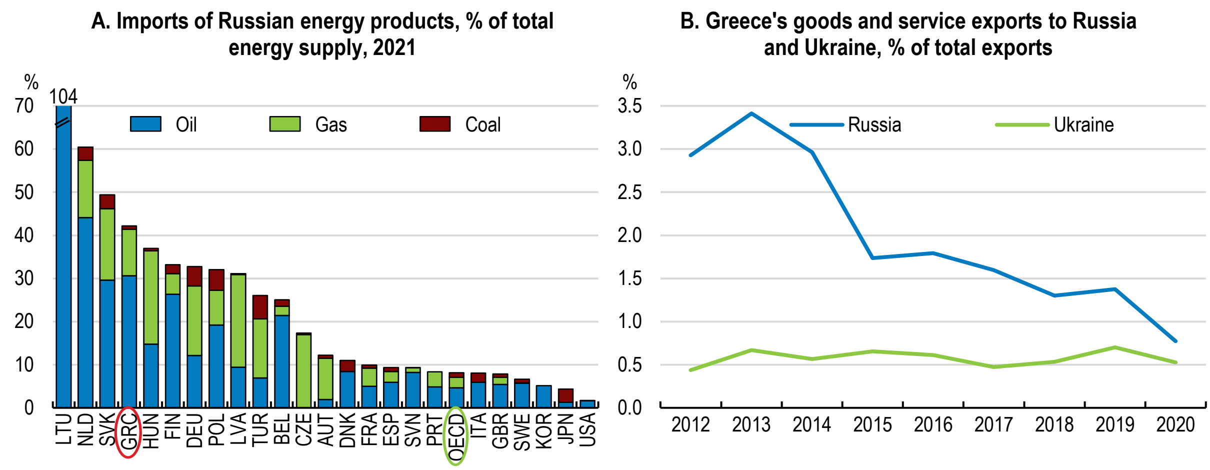
The recovery remained remarkably robust into the second quarter of 2022, through strong growth in domestic consumer and investor spending and substantial fiscal support. The effects of the surge in energy and other commodity prices, the war in Ukraine, and falling consumer confidence and spending power slowed demand, contributing to a contraction in economic activity in the third quarter of 2022 (Figure 1.2). Government energy cost interventions, income support (Table 1.1), and approval of substantial increases in the minimum wage in the first half of 2022 are supporting households' real incomes, but add to pressures on public finances.

Greece's energy supply represents the major direct economic impact of Russia's invasion of Ukraine and the associated sanctions. In February 2022, energy made up 85% of Greece's imports from Russia. Russia supplied nearly 40% of Greece's total energy consumption in 2019 (Figure 1.5, Panel A) down from 82% in 2009 (Kovacevic, 2009[1]). Russia supplied 46% of Greece's refined petroleum product imports in 2019. As this supply is largely ship-born, Greece can relatively readily source these fuels from elsewhere. Russia supplied 45% of Greece's gas imports, via pipelines through neighbouring countries. Gas is an increasingly important energy source as Greece ends the use of lignite to generate electricity (discussed in Chapter 2). Diversifying this supply is more challenging. Building new seaborne shipment infrastructure, identifying and developing fields and constructing new pipelines will be required to access other regional suppliers. Supplies from Azerbaijan are expanding and resources in the Mediterranean are being identified, but it will take several years for these to be sufficient to fully substitute for the supply from Russia. The government has started investing in port and storage facilities to receive seaborne LNG, however this gas is significantly more expensive than existing supplies.

Other direct economic links with Russia are limited and have declined since Russia's invasion of the Crimea in 2014 (Figure 1.5, Panel B). Less than 1% of Greece's total value added was exported to Russia in 2019. Foreign direct investment flows and financial sector linkages between the countries are minor. Receipts from Russian tourists had declined from a peak of 11% of total receipts in 2013 to 1.1% in 2021. Tourist industry bodies had expected Ukrainians to make up about 1.4% of arrivals in 2022. Significant shares of Greece's imports of some food and metals were sourced from Russia and Ukraine, including around one-quarter of aluminium and copper, 22% of wheat and 12% of barley imports. At the same time, Greece, like other countries, is being significantly affected by the war's exacerbation of disruptions in global supply chains and rising food, commodity and energy prices.

Figure 1.5. Russia supplies much of Greece's energy but has become a minor export destination



Note: Panel A: Total energy supply includes energy in total final consumption, transformation processes, distribution losses and energy own-use. In the specific case of Oil, crude oil and oil products are computed together. For Finland, Hungary, Netherlands, and Slovak Republic: country imports include transit trade figures. For Czech Republic, Germany and Latvia: figures include amounts that went to stocks. Components for Lithuania are: oil (91.4%), gas (10.5%) and coal (1.8%). Panel B: Exports of goods and services are the sum of USD value of exported commodities according to the Harmonised System classification and the value of total services exports according to the EBOPS 2010 classification.

Source: IEA World Energy Balances database; OECD International Trade by Commodity Statistics; OECD International Trade in Services Statistics; and OECD calculations.

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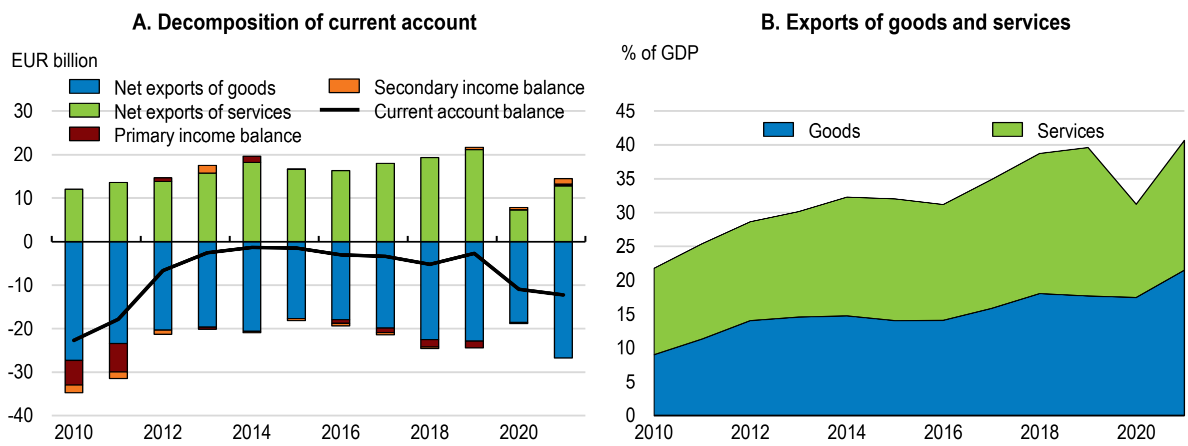
Greece is being affected by the humanitarian crisis of the war. By June 2022 around 20 000 refugees from Ukraine had arrived in Greece, mostly women and children. Greece has important historic cultural ties with both Ukraine and Russia, including an ethnic Greek community that has lived for centuries along the Black Sea. Public support, estimated at 0.1% of GDP in 2022 and 2023, included dedicated housing and other social support. The modest number of displaced persons arriving from Ukraine limits their potential burden on the education and health systems, and their potential contribution to the workforce (European Commission, 2022[2]).

Exports are expanding but Greece's current account remains in structural deficit

Firm export growth has contributed to the recovery (Figure 1.6). The normalising health situation and lifting of travel restrictions in major markets enabled summer tourism season to outperform industry expectations. Receipts between January and September 2022 reached 97% of their record over the same months of 2019. Slightly fewer visitors arrived but they stayed longer and spent more per night than prior to the COVID crisis. Greece's large shipping services sector, which generated 20% of export receipts in 2019, has benefited from rising global shipping demand and prices. Receipts from shipping in the second quarter of 2022 exceeded those in the same period in 2019 by 57%. Greek shippers control between 20% and 30% of the global fleet of bulk carriers and LNG and oil tankers, and generated one-fifth of export receipts in 2019. Greece has gained market shares for goods, gradually diversifying its export basket. Exports of chemicals, diverse manufactured goods and transport equipment, such as pharmaceuticals and specialised metal products, and some agricultural goods, mostly to other EU markets and produced by medium-sized firms, have led this growth and now make important contributions to Greece's exports (Figure 1.7).

Figure 1.6. Despite growing exports, the trade and current account deficits have widened



Source: OECD Analytical database.

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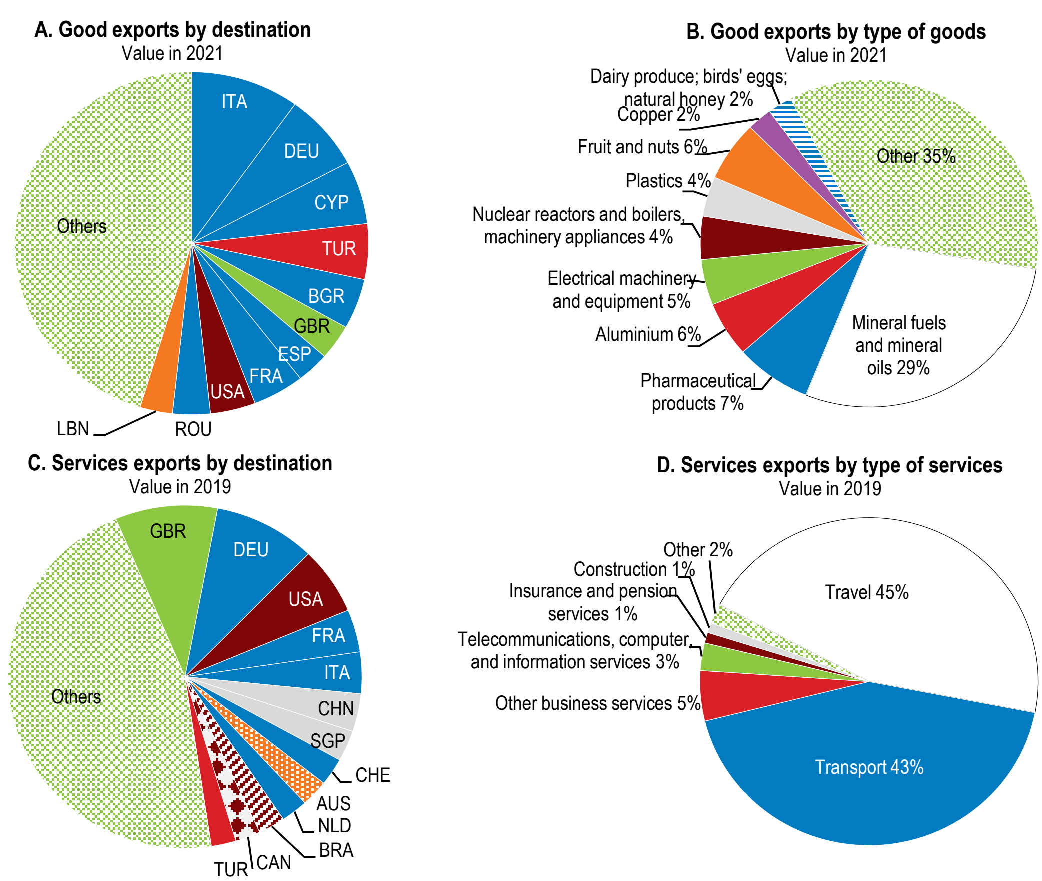
Figure 1.7. Greece's goods exports are more diversified than its services exports



Note: Panels A and B: Data coming from ITCS database are collected on the basis of the Harmonised System 2017; Panels C and D: Data coming from ITSS database are collected according to the Balance of Payments methodology. 2019 data are shown given the distortion to trade patterns due to restrictions related to the COVID pandemic.
Source: OECD International Trade of Commodity Statistics (ITCS, database) and OECD International Trade in Services Statistics (ITSS, database).

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Greece's current account deficit, at 6.7% of GDP in 2021, remains large, despite improving exports. Most of the increase in the current account deficit in 2021 was due to higher energy prices widening the trade deficit to 7.9% of GDP (Figure 1.6). Greece's current account deficit in 2022 is projected to have widened slightly to 7% of GDP, with growth in the value of imports exceeding that of exports against a backdrop of surging global energy prices. The accumulated current account deficits have led to a large negative international investment position. It was supported by the ECB's asset purchases, and by increased foreign direct investment inflows and the initial NextGenerationEU Fund transfers. The FDI and EU grant inflows contribute to the current account deficit by raising import demand, for example for investment goods. Improving the underlying current account balance will require raising productivity to continue recent gains in Greece's competitiveness.

Surging global prices are raising inflation

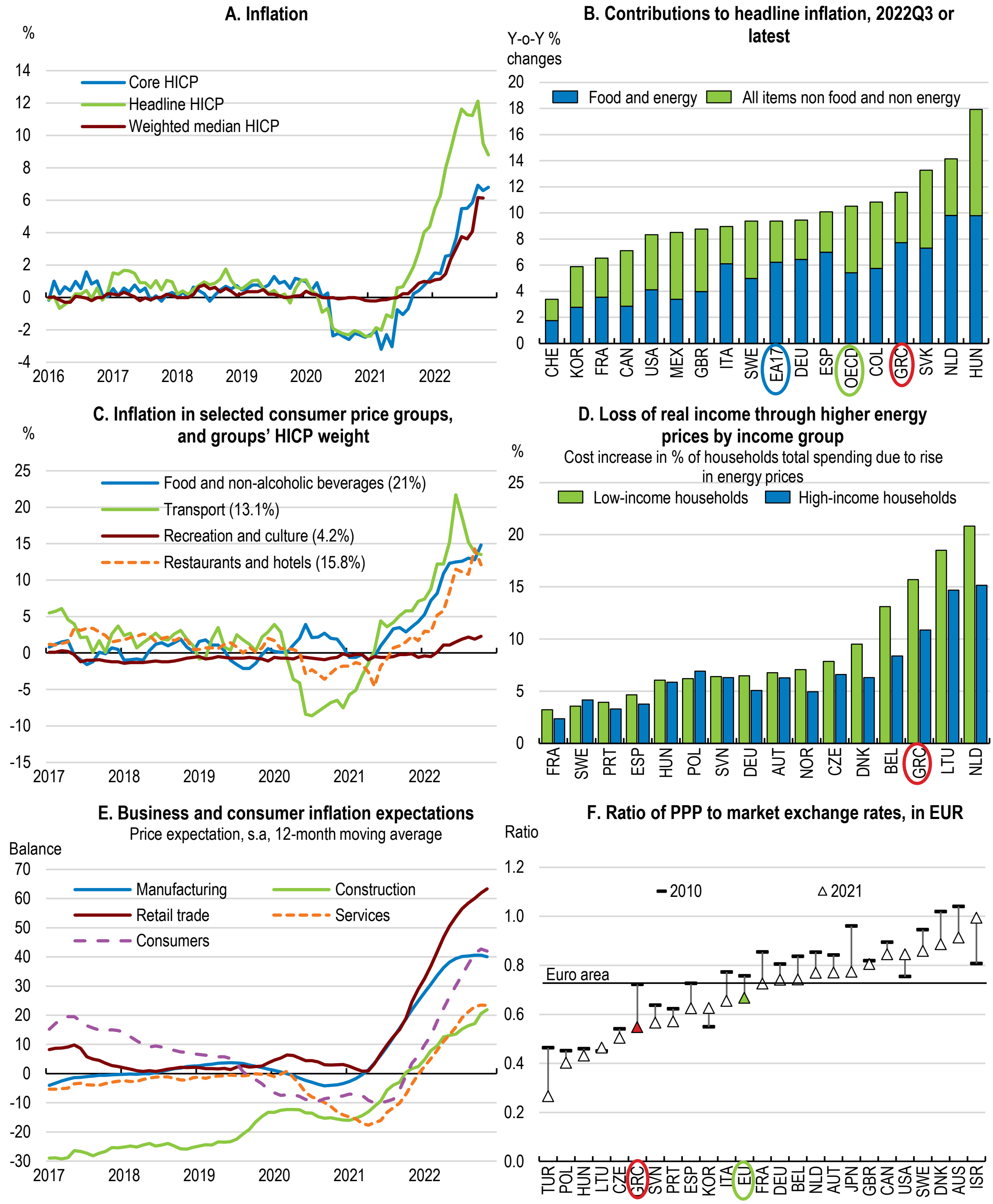
Consumer prices have accelerated. The harmonised consumer price index reached 12.1% in the 12 months to September 2022, before slowing to 8.8% in the 12 months to November 2022 as energy prices eased. This increase was the strongest in 25 years. It contrasted sharply with the 2% fall in consumer prices in the year to March 2021 (Figure 1.8, Panel A), and ended a decade when economy-wide prices in Greece grew by the least of any OECD country apart from Chile (Figure 1.8, Panel F). This period of slower price growth helped improve Greece's competitiveness, contributing to Greece's rising exports and employment, even if equivalent prices remain higher in Greece than in many other euro area countries. Maintaining this gain in competitiveness will require curtailing inflation.

The surge in energy prices accounted for most of the recent increase in inflation (Figure 1.8 , Panel B). For example, retail electricity prices rose in Greece by 70% in the year to June 2022, before easing to 57% in the year to September 2022. Higher home energy prices especially harm the spending of lower-income and rural households, as they spend a higher share of their budgets on heating and fuels than higher-income households, even if the latter are more affected overall due their greater spending on transport fuel (Figure 1.8, Panel D) (Box 2.3 and (Blake, Bulman and Joumard, 2023[3])).

Inflationary pressures are broadening. Recovering demand, decreasing spare capacity and wage rises are contributing to rising core inflation (Figure 1.8). Inflation is rising in sectors experiencing strong recovery in demand and difficulties in recruiting, such as restaurants, hotels and food (Figure 1.8, Panel C). A rising share of businesses report that increasing input costs are reducing their margins and that they are passing higher prices on to their consumers. Inflation expectations remain at historical highs especially in construction, services and retail trade, with the risk of inflation becoming entrenched (Figure 1.8, Panel E).

Increases in wage rates are adding to inflationary pressures. Average wage rates increased in 2021, reversing falls in 2020, and wage growth has accelerated in sectors experiencing stronger activity growth or skills shortages. Greece has reported among the largest increases in labour shortages of EU countries, especially in sectors recovering strongly, such as construction. Wage rates rose by between 4.1% and 4.8% in the first nine months of 2021 compared with a year earlier in construction, professional services and information and communications. The January and May 2022 increases in the minimum wage rate, totalling nearly 10%, are likely to lead to rises in wage rates for workers paid above the minimum wage, raising overall wage growth and contributing to broadening inflation. Over 28% of jobs were paid at the minimum wage in 2021, and historically the average wage rate has increased by almost half of the increase in the minimum wage (Bank of Greece, 2022[4]).

Figure 1.8. Energy prices are leading inflation higher, after many years of little price growth



Note: Panel A: Headline and core inflation are based harmonised consumer prices. Core inflation excludes energy and food products. The weighted median inflation is the price change of the item at the middle of the distribution of price changes, accounting for the items' expenditure weights. Panel B: The COICOP weights are used to calculate the contributions of "All items non-food non-energy" and "Food and energy" inflations to headline inflation. For the OECD average an average weight is used. Panel C: For each selected Harmonised CPI item, the 2022 annual weight is shown in bracket. Panel D: High and low-income households are in the top & bottom 20% of the distribution of household income. Panel E: Inflation expectations are obtained from business and consumers opinion surveys, from responses to the question on price expectation for the next 3 months for businesses, and for the next 12 months for consumers. Data are expressed in balance between weighted percentages of positive and negative replies. Service sector excludes retail trade and banking.
Source: OECD Analytical database; OECD Price Statistics database; and Refinitiv.

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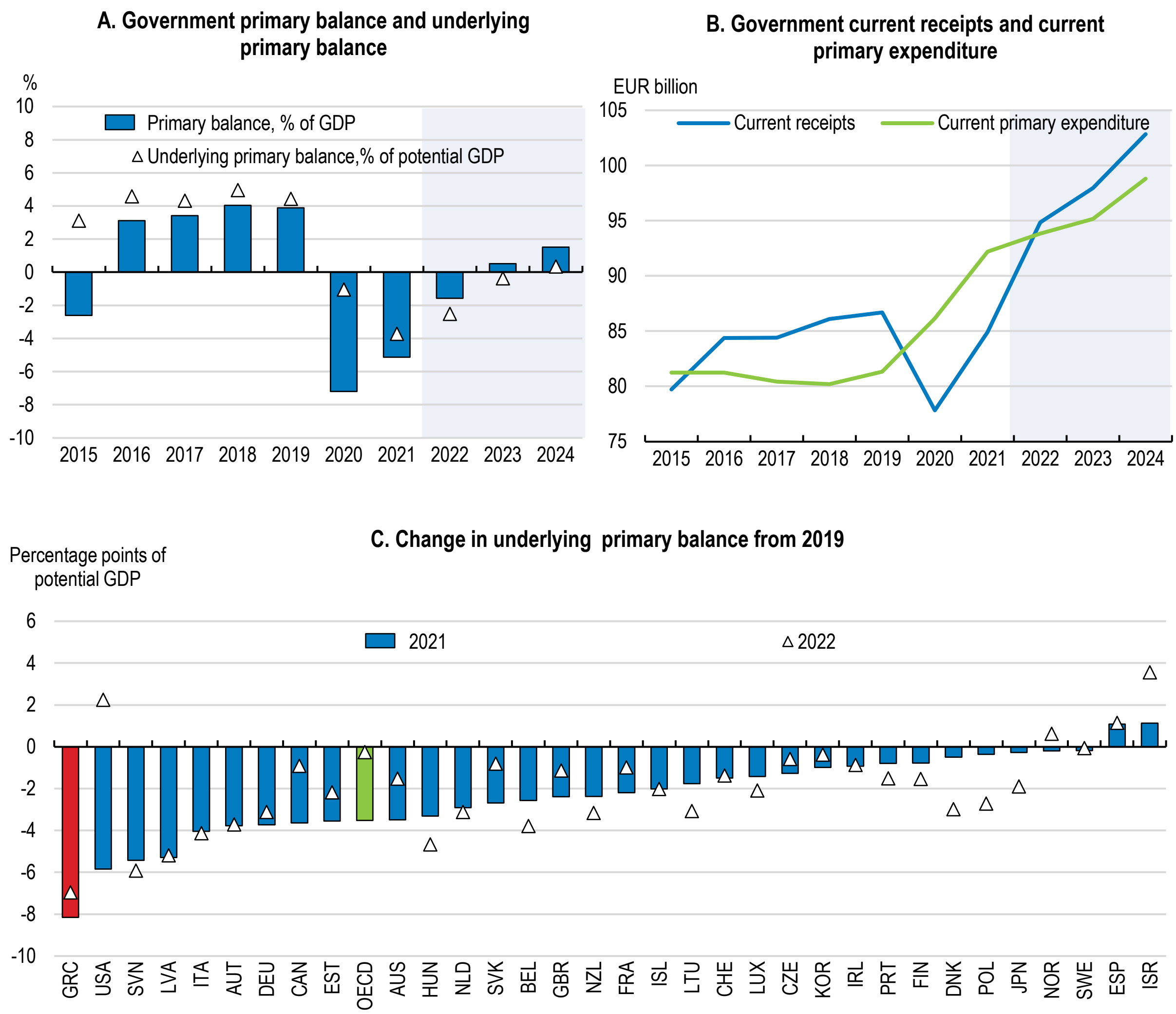
Fiscal support is being gradually withdrawn while monetary conditions tighten

Fiscal support shifted from COVID crisis support for liquidity and incomes, to energy price support and income transfers, and the implementation of the 'Greece 2.0' Recovery and Resilience Plan (Box 1.2). Greece's fiscal response to the COVID crisis was substantial (Figure 1.9). The budget shifted from a primary surplus of 3.9% of GDP in 2019 to a primary deficit of 7.4% of GDP in 2020, the second largest shift across OECD countries (Figure 1.9 Panel C and Table 1.2). Greece's COVID-related support measures between 2020 and 2022 totalled EUR 42 billion or 8% of cumulative GDP over these years. In 2022 it is winding down its remaining COVID response measures. The government plans to return to a modest primary surplus of 0.7% of GDP in 2023, implying a tightening fiscal stance and one of the largest fiscal consolidations among EU countries. Public investment spending of between 1.3% and 1.8% of GDP will be disbursed annually from 2021 to 2026, 95% financed from grants from European funds, notably the NextGenerationEU facility.

Figure 1.9. Substantial fiscal support is being unwound gradually



Note: The primary balance excludes net interest payments. Other definitions, such as that used by the European Commission, excludes only the interest paid. Panel A: The underlying government primary balance is the actual budget balance net of the cyclical component (the 'cyclically adjusted government net lending') and excluding net government transactions having a transitory budgetary effect that do not lead to a sustained change in the budgetary position ('one-off operations').
Source: OECD Economic Outlook 112 (database), updated.

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A rapidly expanding range of measures supporting energy consumers will amount to as much as 5.5% of GDP in 2022, of which 3.6% of GDP are financed by the Green Transition Fund, mainly stemming from Greece's mechanism of collecting windfall revenues in the wholesale electricity market (Table 1.1). Some payments to individual households or firms are capped, and income or turnover limits apply, but these targets are so wide that in practice all but the highest-income households with high energy consumption will be eligible for the main fuel and electricity rebate measures. These measures can support households and small businesses manage the rapid increase in energy costs but they weaken the incentive to economise fuel use. The package of measures includes increased income transfers to low-income households unconditional on energy consumption, and this is an effective means of limiting the welfare costs among the significant share of Greece's households suffering energy poverty (Figure 1.1, Panel B).

Table 1.1. Greece's energy cost support for households and businesses is substantial

Energy expenditure	Description	Targeting and duration	Period covered	Expected costs (EUR billions)
	A: Permanent measures			
Heating	Allowance for heating fuels (oil, natural gas, LPG, pellets, firewood) from 80 to 650 EUR per year	Low-income households (for example EUR 24 000 annual income for family with two children); allowance varies with climatic area	Annually in December	
Electricity	Social residential tariffs on electricity prices reducing prices by 0.045-0.075 EUR/kWh	Low-income households and limited to maximum quarterly spending (for example EUR 18 000 annual income and up to 1800 kWh for family with two children); recipients of guaranteed minimum income received larger reductions	Permanent	Cost is covered by the utility service charge included in electricity bills issued to all other consumers.
	Reduced VAT rate of 6% from standard VAT rate of 24%	All households and businesses		
Natural gas	Reduced VAT rate of 6% from standard VAT rate of 24%	All households and businesses		
	B: Temporary measures			
Heating	Increase in heating allowance from EUR 84 to EUR 174 covering more fuel types	Low-income households at increased income threshold	December 2021 to end 2022	0.3 (financed by Green Transition Fund and budget)
Electricity	Subsidies on electricity consumption for households and businesses of, on average, 80% of price increase for first 300KWh per month and 95% for vulnerable households; extended for May and June 2022 above 300KWh. For commercial users, price subsidy covers 40% and 30% of price increase in 2022-H1 and 2022-H2 respectively. For very small enterprises receive additional subsidy of 80% of price increase for first 4 months of 2022. Extended in July 2022 to EUR 200/MWh per month for households, EUR 192/MWh per month for shops, EUR 213/MWh per month for farmers, and EUR 148/MWh per month for industries. Extended again in August to subsidise all power consumption of households at EUR 337/MWh and of industrial consumers at EUR 250/MWh, and to EUR 639/MWh for households and SMEs and in September. From October, subsidies have been revised to absorb 70 to 80% of the price	All households (first residence; extended to all properties for May and June 2022) and businesses; households with social tariffs and very small enterprises receive larger subsidy.	September 2021 to December 2022	9.1 (4.4% of GDP in 2022) Partly financed by Green Transition Fund; special levy on electricity generators.

	increase for consumers of 501 to 1001 kWh/month; consumers who cut average daily consumption by 15% compared to last year receive an additional subsidy of EUR 50/kWh. Businesses consuming more than 2000 kWh/month receive a subsidy of EUR 398/kWh, and farmers receive a subsidy of EUR 436/kWh			
	Cost recovery mechanism to reimburse 60% of increased electricity costs for households, net of discounts, up to EUR 600	Households (first residence) with annual income up to EUR 45 000 (2.2 x average wage)	December 2021 to May 2022	0.3 (financed from increased revenues of electricity producers)
	Price discount by state-owned Public Power Corporation to fully cover price rise for up to 600KWh per month	Customers of Public Power Corporation		
	Subsidy up to maximum value of EUR 710, or 30% to 50% of purchase costs, for up to three energy-efficient appliances	All households may apply but subsidy is limited. Beneficiaries determined by a ranking system considering income and other criteria (household size and disability status).	June 2022	0.1 (financed by EU structural funds)
Natural gas	Subsidies on natural gas consumption for households and businesses (20 Kwh per month)	All households and businesses	January to April 2022	0.4 (financed by Green Transition Fund)
Gasoline	Prepaid card for gasoline for EUR 40 per month; increased to EUR 60-100 per month.	Individuals and self-employed with annual household net income below EUR 30 000 (1.5 x gross average wage)	April to September 2022	0.3 (0.1% of GDP)
Diesel	Price subsidy of 0.12 EUR per litre.	All households and businesses	May to June 2022	0.7
	Return of special levy on diesel for farmers for 2022	All businesses in agriculture	November 2022 to February 2023	0.5
General income support	Income transfers of EUR 200-250 for low-income pensioners, non-insured elderly, disability benefits beneficiaries, and taxi drivers; doubling of guaranteed minimum income; additional instalment of child benefits Subsidies to farmers and breeders for energy and inflation pressures	1.4 million vulnerable households, including 677 000 low-income pensioners, taxi drivers, and farmers	December 2021 to April 2022	0.9 (0.4% of GDP in 2022)
Tax cuts:	Reduced VAT on passenger transport Reduced VAT for agricultural fertilisers Refund farmers special level on diesel		Extended to Dec. 2022 April 2022 onwards	0.2 (0.1 % of GDP)
Total: 2021 2022 2023				**3.5% of GDP** 0.5% of GDP 5.5% of GDP 0.3% of GDP

Source: Ministry of Finance, Greece, European Commission, and OECD calculations.

While the government is largely funding these measures through windfall revenues from energy producers and increased revenues from fuel taxes and carbon permits, they do absorb resources that could contribute to more lasting gains in well-being and energy efficiency. Shifting support to improve energy efficiency, such as investing in better insulation, would reduce costs for the government budget and households into the medium-term, and be more economically and environmentally sustainable. For example, the ‘Greece 2.0’ support for household insulation is a significant step in this direction, and is likely to require expanding and extending given the scale of Greece’s building insulation needs (discussed in Chapter 2).

Revenue outperformed budget estimates in 2021, reflecting the economy’s strong rebound and accelerating prices. This strength in revenues limited the budget deficit to 7.4% of GDP in 2021, compared with 10.2% of GDP in 2020, and is carrying over to support further reductions in the deficit in 2022. However, fiscal goals have been revised downwards – between December 2021 and May 2022, the government reduced its 2023 primary surplus target from 2% to 1% of GDP and now aims to achieve a modest surplus of 0.7% of GDP. With its expanding energy cost measures and weakening activity, the government has delayed its ambitions to return the budget primary surplus to at least 2.0% of GDP, its medium-term objective (Figure 1.9, Panel A), to 2024.

Interest rates in Greece have been tightening faster than in most other euro area countries, although by less than may be justified by evolving economic conditions. The increase in government bond yields reflects tighter global monetary policy and Greece's sub-investment grade sovereign rating, while the ECB's continued support and reinvestments of maturing bonds and progress in improving the financial sector's health and structural reforms contribute to spreads remaining narrower than prior to the COVID crisis (Figure 1.10, Box 1.5). Real interest rates – measured as the difference between nominal interest rates and actual or expected inflation rates – have been falling. Average borrowing costs for businesses rose more slowly, however, partly reflecting banks' improving access to loanable funds. Overall, the broadening in inflationary pressures and declining spare capacity in many businesses and the labour market justify some fiscal tightening.

Financing conditions in Greece would be better aligned with elsewhere in the euro area if Greece were to achieve investment grade rating of its government securities. This would expand the investor base for Greek public and private financial assets and support foreign direct investments. It would improve Greece's integration into Euro-zone monetary policy instruments (Box 1.3). Cross-country analysis of sovereign bond spreads and ratings prior to the global financial crisis found that the upgrade to investment grade rating reduced sovereign bond spreads by over one-third on average, controlling for economic fundamentals (Jaramillo and Tejada, 2011[5]). A study of short-term government bond yields for 20 countries between 1998 and 2015 found that the downgrade from investment grade by one ratings agency was associated with bond yields increasing by 138 basis points (Hanusch et al., 2016[6]).

Following upgrades in 2022, two of the four main agencies rate Greece one step below investment grade, and two rate Greece two steps below investment grade. Agencies cite factors including improved fiscal credibility and the ongoing structural reforms as contributing to the upgrades, and continued progress in returning the banking sector to health as being an important factor that would contribute to further upgrades. Agencies indicate that the global economic disruption and uncertainty from the war in Ukraine have likely delayed when Greece will achieve further upgrades. This underscores the importance of ensuring gross financing needs for the public sector remain low, continuing to reduce the public debt ratio, and achieving banks' full financial health (discussed below).

Box 1.2. The ambitious "Greece 2.0" Recovery and Resilience Plan

Greece's Recovery and Resilience Plan provides an ambitious and detailed programme of reforms and investment across many of the areas holding back longer-term prospects for stronger, sustainable and inclusive growth. The plan includes 68 different structural reforms, and 106 investment projects. The government estimates that, fully implemented, the plan will lift annual GDP growth by 1.2 percentage points. By 2026, it estimates the plan will raise output by 6.9%, private investment by 20% and employment by 4%. While capital investments will absorb most of the funds, some of the administrative and policy reforms funded from the Plan may have more enduring benefits for Greece's public services and business environment.

Initial progress has been strong. The Plan was among the first submitted and approved for access to the NextGenerationEU Facility. Progress with the reforms and preparing projects allowed Greece to access a pre-payment and the first payment by April 2022. By November 2022, 440 projects had been approved for a total budget of EUR 13.2 billion (6.4% of GDP in 2022). These mostly relate to the green transition, digitalisation in the public and private sectors and of public healthcare, and financial incentives for private investment.

Table 1.2. Greece 2.0 foresees sustained disbursements from its inception

EUR billion, in 2018 values

	2021 Pre financing disbursed	**2022** Projected (disbursed)	**2023** Projected	**2024** Projected	**2025** Projected	**2026** Projected	**Total**
NextGenerationEU resources	4.0	5.3 (3.6 paid up to May)	5.3	5.3	5.3	5.4	30.5 (14.9% of 2022 GDP)
of which							
Grants	2.3	3.4 (1.7 paid up to May)	3.4	3.4	3.4	1.7	17.8
Loans	1.7	1.9 (9 paid up to May	1.9	1.9	1.9	3.7	12.7

Table 1.3. Greece 2.0 prioritises the green transition, employment and skills, digitalisation and private investment

Pillars	Recovery Fund Budget (EUR billion; 2018 values, % of 2022 GDP)	Total investing resources mobilised (EUR billion; 2018 values, % of 2022 GDP)
1. Green Transition	6.2 (3.0%)	11.6 (5.7%)
2. Digital Transition	2.2 (1.1%)	2.4 (1.2%)
3. Employment, Skills, Social Cohesion (Health, Education, Social Protection)	5.2 (2.5%)	5.3 (2.6%)
4. Private investment and transformation of the economy	4.8 (2.4%)	8.8 (4.3%)
Total investment resources	18.4 (9.0%)	28.1 (13.7%)

Fully implementing the plan will be challenging. Some of the Plan's reforms are highly ambitious and are likely to encounter implementation challenges including administrative hurdles, growing supply and workforce constraints, and challenges from some affected groups. To meet these challenges, in line with other OECD countries' experiences in successfully implementing major projects, the government has created a dedicated secretariat linked to the Prime Minister's office in charge of implementing and monitoring the Plan. It has developed a strategic project pipeline and project preparation facility, and dedicated units to manage, control and audit the Greece 2.0 programme and investments. It has committed to building on these measures to improve its ongoing project implementation capacities.

Source: Ministry of Finance of Hellenic Republic (2022), Stability Programme; Bank of Greece (2022) 2021 Annual Report

Table 1.4. Containing expenditure growth is helping Greece return the primary balance to surplus

Per cent of GDP

	2020	2021	2022[1]	2023[1]	2024[1]
Spending and revenue					
Total revenue	49.8	49.7	49.6	49.7	49.9
Income tax	9.2	9.2	9.2	9.4	9.4
Social contributions	15.4	14.9	14.8	14.6	14.7
Other receipts	25.2	25.5	25.6	25.7	25.8
Total expenditure	59.7	57.1	53.9	52.3	51.6
Of which:					
Government consumption	22.8	21.3	19.5	19.6	19.5
Social transfers	20.8	19.5	18.2	18.2	18.1
Gross fixed capital formation	3.1	3.6	3.5	3.5	3.5
Gross interest payments	3.0	2.5	2.9	3.3	3.4
Budget balance					
Fiscal balance	-9.9	-7.4	-4.3	-2.6	-1.7
Primary fiscal balance[2]	-7.2	-5.1	-1.6	0.5	1.5
Cyclically adjusted fiscal balance[3]	-3.5	-4.7	-3.6	-1.9	-1.3
Underlying primary fiscal balance[3]	-1.1	-3.7	-2.5	-0.4	0.3
Public debt					
Gross debt (Maastricht definition)	206.4	193.3	175.1	170.7	163.6
Gross debt (national accounts definition)[4]	242.3	225.7	207.4	203.1	196.0
Gross financial assets (EUR billion)	100.4	104.7	107.7	106.0	105.8
Net debt	181.5	168.4	154.8	152.8	148.0

1. OECD estimates unless otherwise stated.
2. The primary balance is the net fiscal balance excluding net interest payments. Other definitions exist, such as the primary balance published by the European Commission, which excludes only interest paid.
3. As a percentage of potential GDP.
4. National Accounts definition includes state guarantees, among other items.
Source: OECD Economic Outlook 112 (database), updated.

Box 1.3. Greek government securities and the ECB's purchase programmes

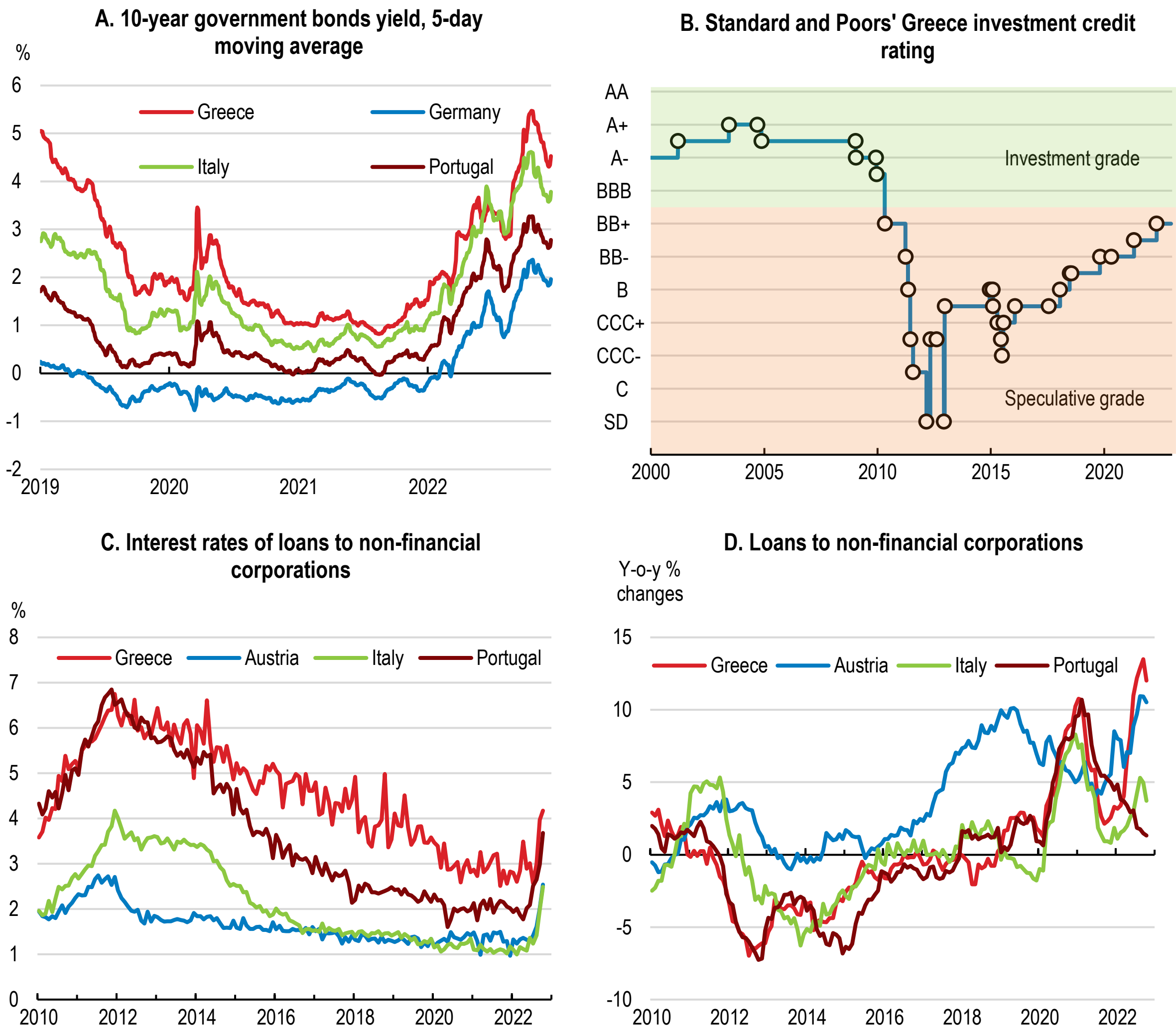
Greece's sub-investment grade sovereign debt rating makes Greek government bonds ineligible as collateral for Euro-system refinancing operations or the ECB's asset purchases in normal circumstances. The ECB exceptionally included Greek government securities in its COVID-response Pandemic Emergency Purchase Programme (PEPP). This was central to Greek government and private securities low yields and narrow spreads over 2020-2021.

Net asset purchases through the PEPP ended in March 2022, although the reinvestment in government securities of maturing securities purchased under the PEPP can continue until at least the end of 2024. The ECB maintained the waiver of the minimum credit quality requirement for Greek government bonds, allowing national central banks to accept them as collateral in line with the continued eligibility for PEPP.

The ECB has decided that it will apply flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to preserving the functioning of the monetary policy transmission mechanism in the euro area, including Greece. In the event of renewed market fragmentation, it has undertaken to purchase Greek Government bonds over and above rollovers of redemptions as part of its flexible framework for reinvesting maturing bonds purchased under PEPP over time and across asset classes and jurisdictions. In July 2022 it reaffirmed this commitment with the announcements of the Transmission Protection Instrument, through which the Euro area central banks can make secondary market purchases of securities issued in jurisdictions suffering a deterioration in financing conditions beyond country-specific fundamentals.

Source: (Bank of Greece, 2022[4]); (ECB, 2021[7]); (ECB, 2022[8]).

Figure 1.10. Achieving investment grade could narrow Greek government bond spreads, lower financing costs and support lending



Note: Panel C: New business loans of up to 1 year. For Greece new business loans with an initial rate fixation period of less than one year. Loans other than revolving loans and overdrafts, convenience and extended credit card debt; loans adjusted for credit and securitisation.
Source: Refinitiv; www.worldgovernmentbonds.com; and ECB.

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Past OECD recommendations on fiscal policies and actions taken

Past recommendations	Actions taken
Maintain the primary surplus agreed with official creditors and facilitate debt restructuring as needed.	2022 budget expects primary deficit of 2% of GDP in 2022, taking into account the General Escape Clause that allows for a temporary departure from the budgetary requirements provided this does not endanger medium-term fiscal sustainability.
Reduce tax evasion by extending the use of risk analysis, targeted tax audits and strengthening incentives for voluntary tax compliance. Extend the obligation of having an electronic cash register to all self-employed and introduce e-invoicing.	Authorities are progressing with the digitalisation of tax audits, codification of tax legislation, and reform of the interconnection of cash registers and points of sale (POS) terminals with the tax authorities (IAPR), in order to enhance transparency.
Continue to fight evasion and broaden the tax base, so as to lower statutory tax rates, and strengthen the tax administration by giving it more autonomy and freeing its resources for audits and enforcement.	Reform of ENFIA property tax, applying new market related property taxes and aiming to widen the tax base and improve fairness and economic efficiency, has been completed. The reform lowers overall property tax receipts. Measures to improve customs operations have been adopted to limit smuggling. These include improved tracking systems, audit processes and redesign of information system of IAPR. Investment measures to digitalise the Tax and Customs Administration have been adopted to strengthen capacity and enhance tax collection.
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.	Fiscal measures have been gradually phased out, with most measures having ended in May 2022 and the remaining ones ending in late 2022. The expected fiscal impact declined from 7.2% of GDP in 2021 to 1.8% of GDP in 2022. Main adopted policy measures included reduction of repayment percentage of all refundable advances on basis of the loss of gross revenues of beneficiaries' businesses, reduced VAT for transport, coffee and non-alcoholic beverages, cinema, theatre, concerts and tourism, gyms and dance schools, suspension of cable TV fees, offsetting obligations to tax authorities and e-EFKA, extension of GEFYRA programme to subsidise loan instalments of households affected by pandemic, extension of short-term employment scheme and hiring subsidy programme.
Introduce targeted incentives for the use of electronic payments in industries with high risk of tax evasion, such as professional services.	A legislative act passed by the Greek Parliament aims to address tax evasion in specific sectors by enhancing e-transactions. The new provisions introduce incentives for e-payments in economic sectors with a high risk of tax evasion, by reducing the taxable income of individuals for such expenses.
Ensure pension spending does not crowd out other, better-targeted, social programmes and public investment.	The reform of the Single Pension Fund (EFKA) has been completed with the objective to improve the efficiency of the pension system and further reduce its administrative costs. The reform gradually converting the auxiliary pension system to a Funded Defined Contributions Scheme aims at reducing the exposure of the social security system to demographic risk, increase savings that can be used for investments, provide disincentives for uninsured labour, and provide higher pensions for future generations. The reform will generate transitory fiscal costs.
Boost public investment to support growth and environmental sustainability, including in public transport, innovation and waste management, based on cost-benefit analysis.	Recovery and Resilience Plan "Greece 2.0" dedicates 23.3% and 37.5% of EUR 31 billion (EUR 18 billion grants and EUR 13 billion loans) for investments until 2026 in digital transformation and green transition respectively.
Ensure results of spending reviews are available early enough in the budget cycle.	Relevant action not identified.

Further progress is required to achieve a healthy banking sector

Banks' health has continued to improve but the capital of much of the banking sector remains weak. Banks' liquidity increased over 2020 and 2021, supported by rising deposits from households and businesses, the progressive sale and securitisation of non-performing loans (NPLs), and access to lower-cost financing via the ECB's Targeted Longer Term Refinancing Operations (TLTROs). Deposits rose by 35% to EUR 224 billion (123% of GDP in 2021) between the start of the pandemic and October 2022. Banks have also boosted their liquidity by issuing bonds and new capital.

A properly functioning banking sector will require banks to reduce their non-performing loans to levels similar to other OECD countries. Securitisations, sales and gradual curing have reduced the share of non-performing exposures to single digits for the four systemically important banks and the Bank of Greece estimated NPLs to be near 10% of outstanding loans across the banking sector by June 2022 (Figure 1.11).

Greece took far longer than other Euro-area countries affected by high non-performing loans to develop and implement mechanisms to resolve NPLs, but progress has accelerated for the larger banks since the government implemented its 'Hercules' NPL securitisation scheme (Box 1.4). The scheme, which provided a state guarantee of the senior tranche of securitised NPLs, was extended to October 2022, and its coverage of securitised NPLs doubled to EUR 24 billion (13.2% of GDP in 2021). Several securitisation transactions were expected to be completed before the scheme closed (European Commission, 2022[9]). After it ended, it has become more costly for banks to securitise their remaining or new NPLs. While the COVID crisis led to a smaller wave of new NPLs that slowed over 2021, the surge in energy prices and disruptions in global supply chains risk generating further NPLs. Further extending the Hercules scheme if necessary would help banks clear their remaining and these new NPLs, an essential step to banks again financing investment.

Banks have largely avoided converting deferred tax credits into equity holdings by the State as they book losses on their non-performing loan (NPL) portfolios. They have done this by shifting the deferred tax credits into units separate from those that booked the losses on the NPLs. Future losses incurred by the corporate units that hold the deferred tax credits will trigger the conversion of the credits into equity. A 2021 law extends how long banks can amortise their deferred tax credits from 5 to 20 and 30 years depending on the type of credit (European Central Bank, 2021[10]). This may facilitate further sales of NPLs, but extends how long the deferred tax credits are likely to remain on banks' balance sheets, with the associated implications for public revenues once banks become profitable and for the quality of banks' capital.

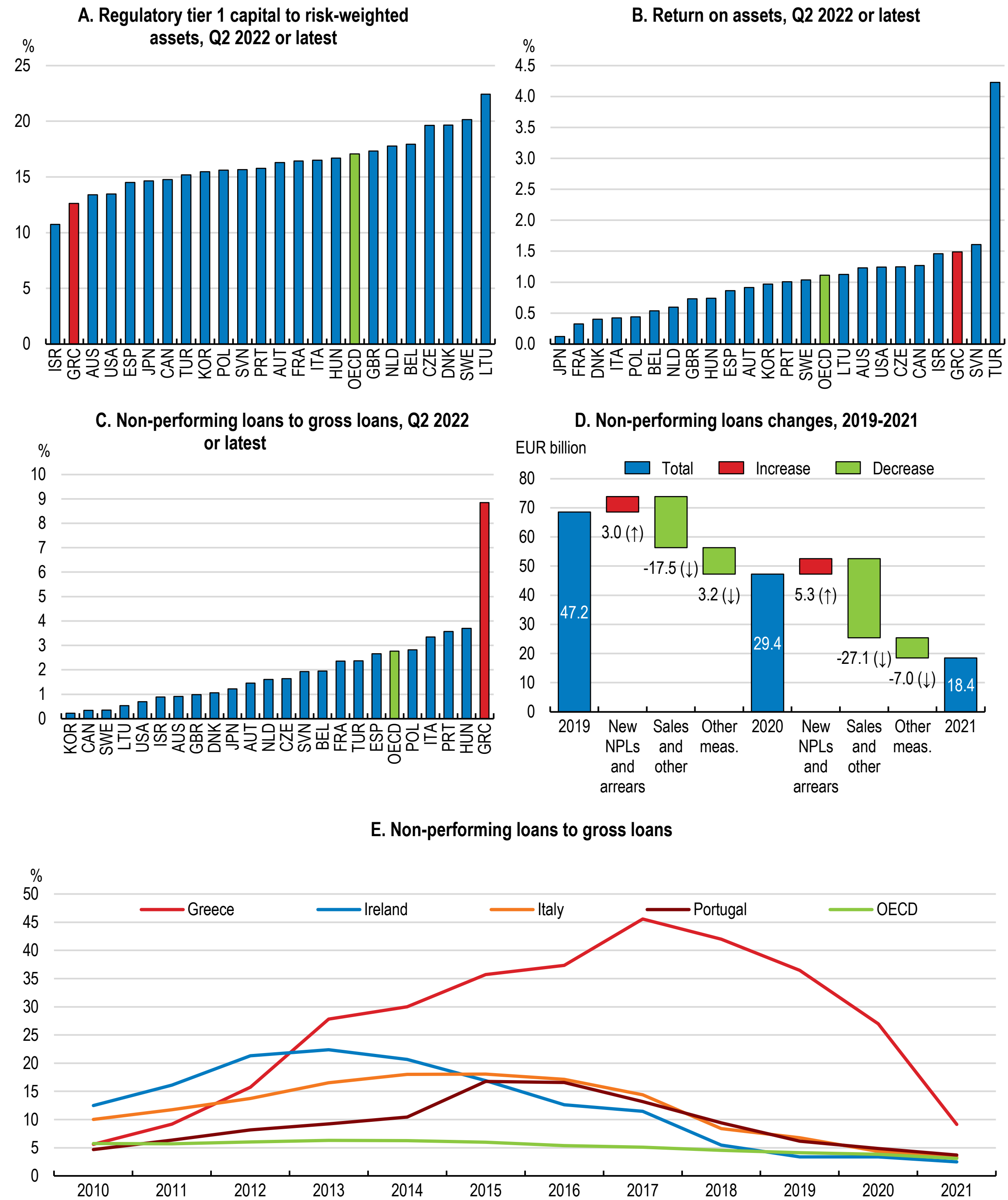
Box 1.4. The Hercules programme has securitised a large share of Greece's non-performing loans

The Hellenic Asset Protection Scheme, 'Hercules', has been central to Greece's recent progress in reducing its banks' non-performing loan (NPL) holdings. The government established Hercules in December 2019, and later extended the programme to October 2022. EUR 49 billion of NPLs have been sold under the scheme. It is similar to the 'GACS' programme Italy introduced in 2016 and has since repeatedly extended.

Hercules is a securitisation framework whereby individually managed, private securitisation vehicles buy banks' NPLs and sell to investors notes securitising the NPL assets. The NPLs are securitised at market value, which can trigger the recognition of losses for the banks if they previously assessed their value above market prices. The securitised NPLs are broken into junior, mezzanine and senior tranches. The banks retain the senior tranche, which Greece's government guarantees. The banks pay the government market-based fees for the guarantee, to ensure that the programme complies with EU state aid rules. The government has increased the value of senior tranches it can guarantee to EUR 24 billion. At the end of 2021, it had provided EUR 18.6 billion of guarantees.

Source: (European Commission, 2022[9]) (Bank of Greece, 2022[11]) (European Commission, 2021[12]).

Figure 1.11. Banks will need to further improve their health if they are to finance the recovery



Note: The EBA defines non-performing loans as including only loans 90 days past due and denounced loans. Note that non-performing exposures also includes "unlikely to pay" loans and are not shown in the cross-country data presented in these charts. Panel A to C and Panel E: Each Panel contains unweighted OECD average of available countries. Due to data unavailability, the OECD average excludes New Zealand for any panels. Panel D: Blue bars show the stock of NPLs at the end of each period, red bars show the inflows of new NPLs as well as arrears capitalisation and green bars show outflows such as sales. Panel E: For Ireland and Portugal, 2021 figure corresponds to the data in 2021Q2.
Source: IMF, Financial Soundness Indicators database; and Bank of Greece.

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Rebuilding banks' capital bases will become an increasing priority as banks resolve their non-performing loans (NPLs). Losses from the recognition and clearance of NPLs, the costs of ongoing corporate restructuring, efficiency improvements and digitalising operations, and increased provision for credit risks have depleted banks' capital. A number of banks' capital provides limited buffers above regulatory requirements (Figure 1.10, Panel A). Greek banks' Minimum Requirement of Own Funds and Eligible Liabilities (MREL) record the largest shortfalls among the countries supervised by the Single Resolution Board. The ECB and European Banking Authority's regular stress-test and capital needs assessment found that three of Greece's four major banks recorded larger falls in their common equity tier 1 index under the stress test than most other banks undertaking the exercise, although their capital would remain above the supervisory minima and binding intermediate targets (Vagia and Haralabidis, 2021[13]; ECB, 2021[14]). The capital decrease raised the share of deferred tax assets in banks' total regulatory assets to 58% in June 2021. Policy measures are focusing on banks rebuilding their capital organically by supporting efforts for banks to shift to recurring profitability. As such profitability will take some time to be sufficient to rebuild capital buffers, financial institutions can also look to improve their situation through further equity and bond sales, which will be supported by Greece obtaining an investment-grade sovereign rating.

While clearing NPLs from banks' balance sheets is important progress, EUR 100 billion of NPLs remain outstanding, managed by the growing loan servicing industry. These NPLs effectively block their debtors and their remaining assets, restricting them from accessing new credit to rebuild or restart business. The new insolvency framework is gradually accelerating debt and bad loans resolution, including through growing use of its out-of-court workout mechanism, automated and digitalised processing, and simplified procedures for small insolvencies. But a large legacy remains, with the backlog of bad loans to households notably slow to clear. The economy's recovery and rising property prices helped some debtors to restart servicing their loans, and the loan servicing agencies believe that up to 30% of the EUR 50 billion of securitised non-performing loans they manage can perform again. Accelerating the insolvency cases that are stalled in the court system, especially those covered by the previous insolvency law, would help clear the legacy of the past crises.

Past OECD recommendations on financial sustainability policies and actions taken

Past recommendations	Actions taken
Fully implement out-of-court workout procedures and e-auctions and the legislated insolvency reforms.	The functioning of the early warning platform completed the electronic infrastructure of the new insolvency framework and the process of setting up the sale and lease-back mechanism is ongoing. A call for Expression of Interest will be published by June 2022. However, auctions have been subject to ad hoc suspensions.
Swiftly implement the Hercules scheme to dispose of non-performing loans from banks' balance sheets.	The reduction of non-performing loans by the banking sector through the Hercules scheme continued with the non-performing exposure ratio standing at 12.1% in March 2021, down from 30.1% in December 2020. The Hercules scheme has been extended to October 2022 and provided with additional financial resources.
Urgently design and implement a strategy to address the deferred tax credits and the bad loans that will remain on banks' balance sheets.	A 2021 law has extended the amortisation period of deferred tax credits.
Align tax incentives for disposing of non-performing loans with those of previous legislation and make them temporary.	Relevant action not identified.
Create a platform for purchase and sale of NPLs, along the lines of the EU Council Action Plan.	Relevant action not identified.

The recovery is projected to pick up once the external headwinds drop

Headwinds from surging energy prices and supply restrictions, tighter monetary conditions and disruptions in global trade are projected to slow Greece's recovery in the near term (Table 1.5). The loss of households' purchasing power, rising investment costs and renewed uncertainty are projected to drag business confidence and weaken growth in private consumption and investment. The government's response measures and implementation of the Recovery and Resilience Plan will provide some offsetting support into 2023. Moderate growth is projected to resume once the headwinds decline in 2023. Under the central projection, price pressures are projected to abate as energy prices ease in 2023, limiting the risk of a wage-price spiral. The restoration of a primary budget surplus is projected to limit the scale and length of future stimulus. Into the medium term, maintaining fiscal credibility and banks' improving health would enable agencies to upgrade Greece's sovereign debt rating to investment grade, which will add support to investment.

The outlook is highly uncertain. Higher interest rates and spreads on Greek debt risk leading to a greater tightening of monetary conditions in Greece relative to other euro area countries, which would slow investment. Excessive or poorly-targeted fiscal support would risk accentuating demand pressures and unwind Greece's hard-won gains in competitiveness and fiscal credibility. A protracted or expanded conflict around Ukraine could disrupt further energy supply and raise prices, and could directly affect Greece and its neighbours. The Greece 2.0 Recovery and Resilience Plan is appropriately ambitious but there is a risk that some of its policy reforms and investments are not implemented before the facility closes. COVID continues to affect the health situation in Greece as new COVID variants emerge and spread (Figure 1.3). While Greece had achieved a vaccination rate near the average of OECD countries by early 2022, the new variants may require renewed vaccinations and restrictions to protect health, slowing the recovery.

Table 1.5. Macroeconomic indicators and projections

	2019	2020	2021	2022	2023	2024
	Current prices (EUR billion)	Percentage change, volume (2015 prices)				
Gross domestic product (GDP)	183	-9.0	8.3	5.1	1.1	1.8
Private consumption	127	-7.9	7.8	8.0	0.5	1.4
Government consumption	37	2.6	3.7	-0.2	0.8	0.9
Gross fixed capital formation	19	-0.3	19.6	8.5	2.5	5.0
Of which, housing	2	18.3	27.5	19.0	7.2	3.9
Final domestic demand	183	-5.0	8.3	6.4	0.8	1.8
Stockbuilding[1]	4	1.4	-0.9	0.6	0.2	0.0
Total domestic demand	186	-3.3	7.3	6.6	0.9	1.8
Exports of goods and services	74	-21.5	21.9	5.1	-0.5	2.9
Imports of goods and services	77	-7.6	16.1	8.0	1.6	2.6
Net exports[1]		-5.5	0.7	-1.8	-1.2	-0.1
Other indicators (growth rates, unless specified)						
Potential GDP	. .	1.2	1.3	1.3	1.1	1.1
Output gap (% of potential GDP)	. .	-11.2	-5.1	-1.6	-1.6	-0.9
Employment	. .	-0.9	1.4	6.2	1.1	0.3
Unemployment rate (% of labour force)	. .	16.3	14.7	12.3	11.5	11.5
GDP deflator	. .	-0.8	2.1	6.6	2.0	2.6
Harmonised consumer price index	. .	-1.3	0.6	9.5	3.7	2.3
Harmonised core consumer price index	. .	-1.2	-1.1	4.4	4.0	2.5
Terms of trade	. .	-0.8	-1.4	4.8	0.4	-0.1
Household saving ratio, net (% of disposable income)	. .	-5.1	-3.2	-10.3	-7.9	-7.5
Trade balance (% of GDP)	. .	-7.6	-7.9	-8.7	-9.9	-9.8
Current account balance (% of GDP)	. .	-6.6	-6.7	-7.1	-8.9	-8.8
General government fiscal balance (% of GDP)	. .	-9.9	-7.4	-4.3	-2.6	-1.7
Three-month money market rate, average	. .	-0.4	-0.5	0.5	3.8	3.9
Ten-year government bond yield, average	. .	1.3	0.9	3.6	6.5	6.4

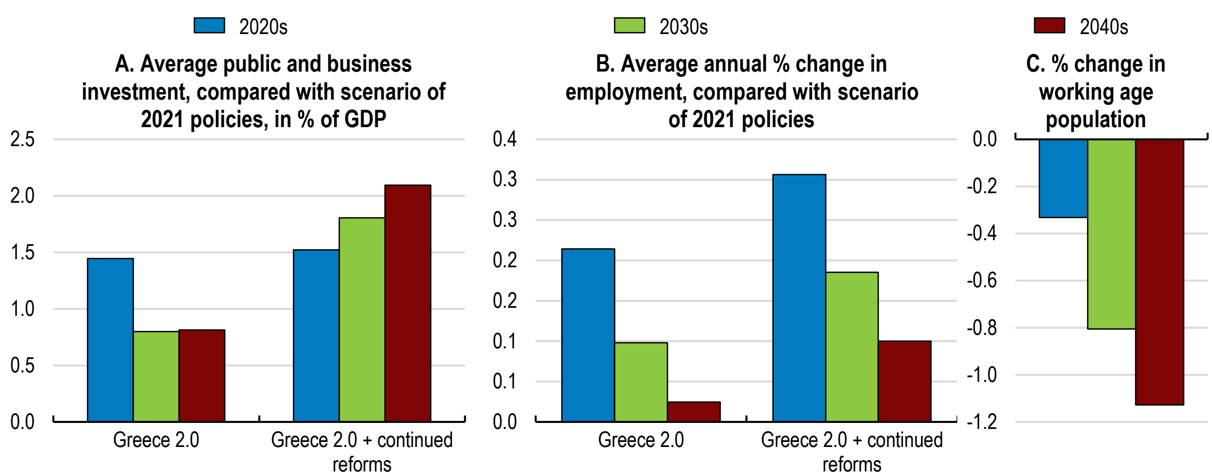
1. Contributions to changes in real GDP.
Source: OECD Economic Outlook 112 (database), updated.

Box 1.5. Greece's national electoral calendar

Greece's current national government was elected in the July 2019 national elections. It is led by the Prime Minister Kyriakos Mitsotakis, whose New Democracy party won 40% of votes cast, making it the largest party in parliament, with 183 of the parliament's 300 seats, including a 50 seat bonus for the party with the largest share of votes. The next national elections are due by August 2023. The 50 seat bonus for the party with the largest number of seats will be replaced by all 300 seats being allocated proportionately among parties obtaining at least 3% of the general vote. If no government is formed, a second election will be immediately called where the party with the largest vote share will receive a bonus of seats reflecting factors including the party's share of the overall vote.

From the late 2020s, growth is likely to slow as the benefits of the Greece 2.0 investment push and reforms fade, while the ageing workforce and the effects of the green economy transition increasingly drag growth. (The implications for growth and investment of the transition to a net zero emission energy system are discussed in Chapter 2, Box 2.4.) Further measures to raise labour force participation and to maintain higher investment would offset much of the drag on growth from the ageing population and the transition to a green economy, enabling stronger growth to be sustained into the longer-term (Figure 1.12).

Figure 1.12. Stronger investment will be central to sustaining growth as the workforce ages



Note: Policy scenarios are described in Table 1.6. Panel C: Under the 'targeted transition', renewable sources generate 70% of energy consumption by 2030, and 100% by 2050; Panel D: Under the 'delayed transition', renewable sources generate 50% of energy consumption by 2030, and 100% by 2050 (scenarios discussed further in Chapter 2, Box 2.10).
Source: Simulations based on the OECD's Global Long-Term Model and Eurostat population projection scenarios, and OECD Economic Outlook 112 (database) updated.

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The proposed ongoing reform measures would continue and build on the reform and investment momentum of the Greece 2.0 programme. Key measures are presented in this chapter below, and Table 1.6 presents simulations of how packages of these measures would bolster GDP growth. Measures to improve the institutional environment, such as those to improve administrative processes and judicial responsiveness and to ease regulatory barriers, would generate ongoing benefits from stronger growth, largely through higher productivity growth and investment (illustrated by Policy Scenarios 3.i. in Table 1.6). Measures to sustain higher investment and R&D would bolster growth sooner but bring more modest enduring support to growth (illustrated by Policy Scenario 3.ii. in Table 1.6). The proposed measures, together with further efforts to raise the quality of spending and to improve tax compliance and collections discussed below, would support the budget balance. These projections are subject to a number of low-probability but significant risks that could dent growth prospects.

Table 1.6. Continuing investment and reforms would support income growth and the green energy transition

	Policy scenario	Policy actions	Cumulative effect on real GDP relative to 2021 policies, %:		
			2025	2030	2040
1	Implementing the 'Greece 2.0' Recovery and Resilience Plan	Codification of regulations, digitalisation of government services and judicial processes, and clarity around spatial planning lift perceptions of the rule of law to the 33rd percentile of OECD countries by 2030, then they stabilise. Following Greece 2.0, from 2026, public investment returns to its historical average of 3.2% of GDP. Regulatory reforms lower the overall product market regulation index by 0.107 to 1.63 from 2023. Measures in Greece 2.0 raise spending on active labour market policies by one-third, and spending on in-kind support for families from 0.4% of GDP to 0.9% of GDP, the average of OECD countries. The labour income tax wedge at the average wage for a single and for a single-earner couple with two children declines by 5 percentage points to, respectively, 35.8%, and 32.8% between 2019 and 2023, and then remains at this level, reflecting rate changes announced by the government. Improvements in education quality and adult skill training raise the average years of schooling across the workforce by 1.7 years by 2060, compared with the baseline, to 14.5 years.	1.0	5.6	12.3
2	Continuing the reform and investment momentum beyond Greece 2.0	In addition to the measures in Scenario 1, improved judicial processes, anti-corruption measures and regulatory simplification allow perceptions of the rule of law to progressively rise to the OECD average by 2050; following Greece 2.0, public investment declines to the OECD average of 3.8% of GDP; product market regulation further improves to reach the OECD average from 2025; and R&D investment continues to rise to reach 2.0% of GDP from 2030.	1.1	6.4	17.7
3	Continuing the reform and investment momentum beyond Greece 2.0 and maximising the contribution from net migration	In addition to the measures in Scenario 2, measures to encourage emigrants to return, and to make greater use of foreign-born workers' skills lead to higher effective immigration in line with Eurostat's 'high migration' scenario, leading to the working age population in 2050 1.3% (85 000) higher than in the other scenarios.	1.1	6.6	18.4
Of which:					
3.i.	Continuing the momentum beyond Greece 2.0, focusing on improving the institutional climate, and maximising the contribution from net migration	Institutional reforms to improve judicial processes, anti-corruption measures and regulatory simplification allow perceptions of the rule of law to progressively rise to the OECD average by 2050; product market regulation further improves to reach the OECD average from 2025	1.0	5.8	15.8
3.ii.	Continuing the momentum beyond Greece 2.0, focusing on public and R&D investments, and maximising the contribution from net migration	Following Greece 2.0, public investment declines to the OECD average of 3.8% of GDP; and R&D investment continues to rise to reach 2.0% of GDP from 2030.	1.1	6.6	15.4

Note: The baseline projections take into account the reduction of the corporate income tax rate to 22%. The projections assume that the pension reforms implemented up to 2021 lead the average effective retirement age to rise to 65 by 2030 and to rise with life expectancy thereafter.
Source: Simulations based on the OECD's Global Long-Term Model and Eurostat population projection scenarios, and OECD Economic Outlook 111 (database) updated.

Table 1.7. Events that could lead to major changes in the outlook

Vulnerability	Possible impact
Disruptions to energy supply, especially gas, and key commodities worsen and become more prolonged, and global trading linkages splinter.	Higher operating costs undermine the recovery in Greece's industry. Higher energy prices setback gains in households' living standards. Compensation measures weaken public finances. Greece's transition away from lignite is delayed, contributing to weakening in international efforts to mitigate climate change, which would bring higher long-term costs from a hotter climate. Weaker international trade slows global growth, weakening demand for Greece's exports.
Spiralling wage and price inflation	Sustained higher inflation leads to stronger wage growth, exceeding productivity growth, reversing the gains in Greece's competitiveness achieved over the past decade and aggravating the structural trade deficit, while reducing vulnerable households' real income.
Disruption on global financial markets raises the cost of borrowing disproportionately in Greece and delays Greece's government debt re-rating to investment grade	The spread premium on Greek government and private debt increases, delaying the recovery in access to financing for investment and business operations.
COVID-19 and vaccines: emergence of new virus variants and a potentially limited efficacy of vaccines	Return to reduced mobility and lower consumer confidence would weigh on demand, with greater risk of longer-term scaring as businesses close, leading to renewed growth in non-performing loans and delaying banks return to health.
Climate-related risks	Responding to more frequent adverse climate events, such as heat waves and forest fires or floods, would absorb a higher share of public and private investment and weaken the tourism and agricultural sectors.
Extended, heightened geopolitical tensions	Lower confidence and lower global trade, combined with higher international prices would reduce potential growth through weaker exports and foreign direct investment.

Box 1.6. The proposed reform and investment programme would improve the budget balance

Table 1.8 presents estimates of the fiscal effects of the recommended reform package, allowing for limited behavioural responses. The recommended reforms with minor fiscal impacts are not presented. Reforms assessed for fiscal impact reflect those simulated for long-term GDP effects in Table 1.6. The overall balanced fiscal impact is consistent with Greece maintaining a primary budget surplus averaging near 2% of GDP.

Table 1.8. Recommended reform measures with significant fiscal effects

Fiscal savings (+) and outlays (-), % current year GDP:[1]	2025	2030
Introduce an emission tax price floor or EUR 120/tCO_2[2]	+1.0	+0.8
Invest in transport infrastructure for net-zero emissions[2]	-0.1	-0.1
Double planned renovation rate to 120 000 dwellings / year[2]	-0.1	-0.1
Investment in renewable energies[2]	-1.5	-0.6
Raise active labour market and training spending to OECD average	-0.3	-0.3
Revenue gain from more consistent rates, improved compliance and broader coverage[3]	1.0	1.0
Overall budget impact of specific measures of recommended reform package	**0.0**	**0.7**
Memo: GDP difference from baseline (%)	*1.1*	*6.6*

1) Only measures with significant ongoing fiscal implications included.
2) Costs of measures supporting the green transition are developed in Chapter 2.
3) Potential revenue gains from reducing tax evasion and improving collections are based on OECD estimates of the gap between realised and potential VAT revenues, adjusted for projected nominal GDP growth, and given revenue gains from past compliance measures. 3) Additional expenditure to increase education quality and access to lifelong education and skill training gradually brings Greece's spending up to the OECD average.

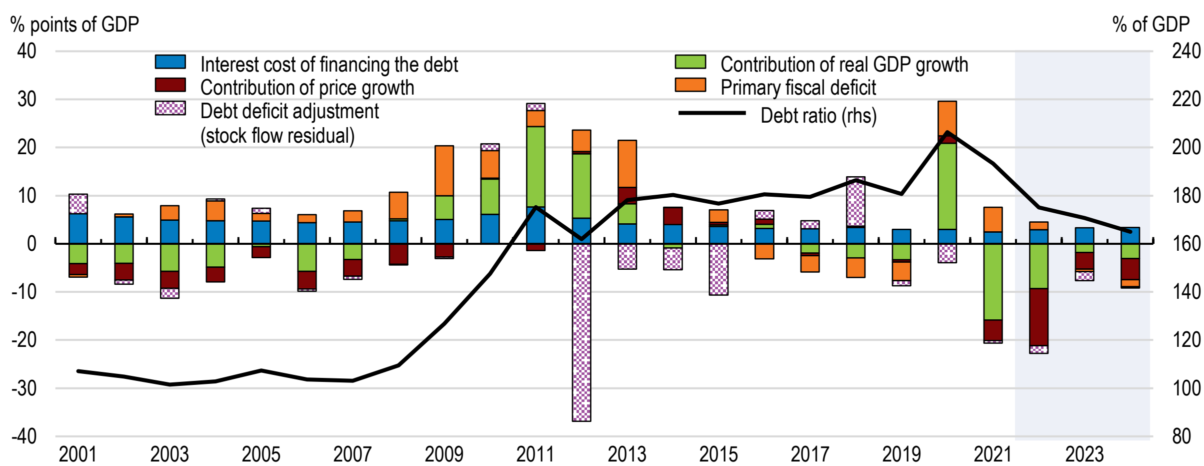
Fiscal sustainability through more effective public investment, spending and revenue policy

Since the COVID crisis, Greece is expected to have returned its public debt to GDP ratio to near 175% of GDP by the end of 2022 (Maastricht definition), the lowest ratio in a decade, and built substantial cash reserves. The economy's rebound, accelerating price growth and the reduced budget deficit contributed to reversing the COVID-period spike in public debt ratios (Figure 1.13). Public debt remains dominated by loans from official institutions. Its weighted average maturity is 18 years. Nearly all these loans are at fixed interest rates and denominated in euros, limiting the exposure of Greece's public debt to rising interest rates or euro depreciation. The government has repaid more expensive credits, including all of its borrowings from the IMF, and is seeking to build a yield curve that will help deepen market liquidity and reduce the cost of future debt issues. As protection against potential interest rate rises or market disruption, it has increased its cash reserves to EUR 39 billion (20% of GDP), sufficient to cover over three years' gross financing needs.

In the medium term, the government plans to achieve primary budget surpluses of at least 1.5% to 2% of GDP, in line with the Stability and Growth Pact objectives (Bank of Greece, 2021[15]). Reaching this target from 2023 would help Greece to manage its rising capacity utilisation and price pressures, to maintain fiscal credibility and to achieve an investment-grade sovereign debt rating despite tightening global monetary conditions. The additional fiscal support provided over 2021 to 2026 by grants averaging EUR 3.1 billion (1.6% of 2022 GDP) annually from the NextGenerationEU Facility mitigates the impact of fiscal consolidation on the economy.

Figure 1.13. The economy's rebound and rising prices have put public debt on a downwards path

Gross public debt (Maastricht definition) and contributions to change, % of GDP



Note: Values for 2022 and 2023 are projected. Negative 'primary fiscal deficit' indicates a surplus.
Source: Ministry of Finance, Greece, and OECD Economic Outlook 112 (database), updated.

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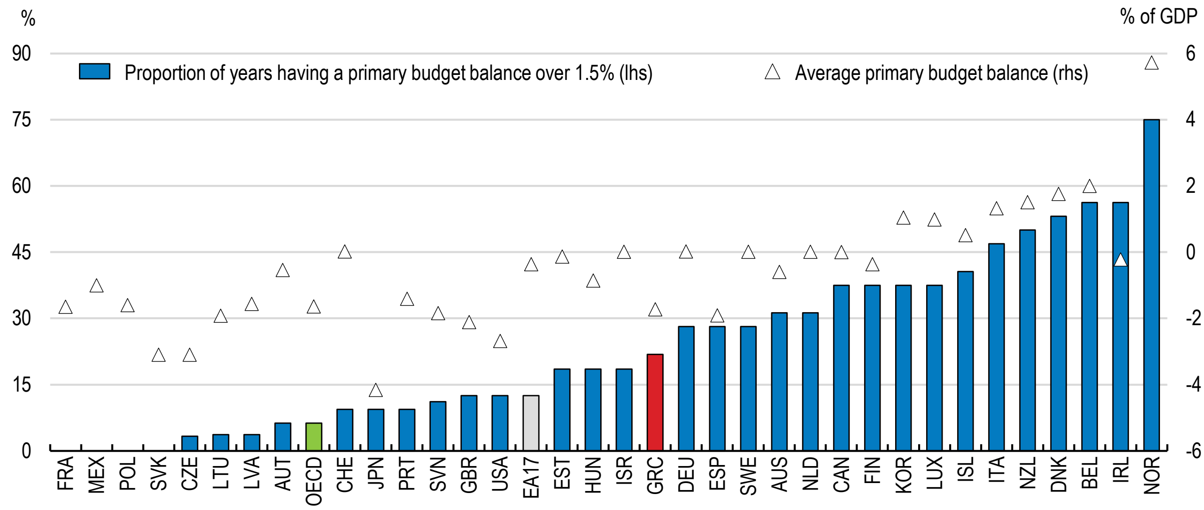
A small number of other OECD countries have maintained primary budget surpluses above 1.5% of GDP for half or more of the past three decades, including several countries addressing high public debt such as Belgium and Italy (Figure 1.14). Achieving this objective would reduce Greece's financing costs and improve public debt sustainability, so ensuring fiscal space is available for targeted responses to future shocks. Sustaining such primary surpluses will require raising the quality and effectiveness of spending and improving the structure of tax rates and continuing to raise tax compliance (discussed through the remainder of this section).

Figure 1.14. Some countries sustain a primary budget surplus above 1.5% of GDP for many years

Primary budget balance, % of GDP, and proportion of years with a primary budget surplus over 1.5%, 1990-2021



Source: OECD Economic Outlook 112 (database), updated.

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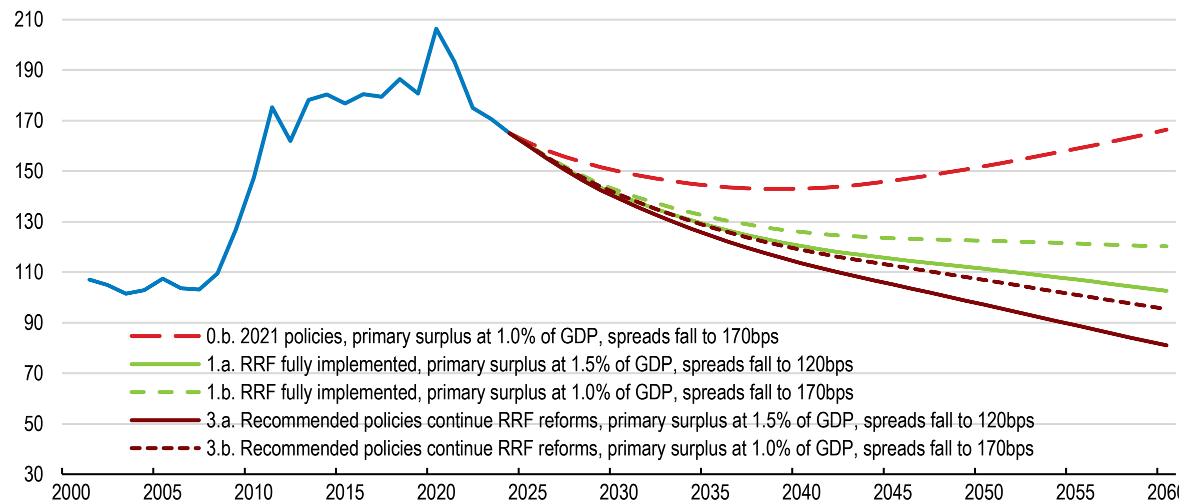
Both sustained, strong growth, supported by greater investment and continued reforms, and sustained primary surpluses are needed to continue to reduce the debt to GDP ratio. Sustainably raising growth by implementing this Survey's recommendations to continue reforms and investments beyond the Greece 2.0 programme would hasten the improvement in public financial health (Scenario 3.a.). The public debt to GDP ratio could continue to fall, albeit more slowly, with sustained reforms and investments for stronger growth but a smaller primary budget surplus and higher interest costs (Scenario 3.b.). These scenarios contrast with those without sustained reforms and primary budget surpluses. For example, fully implementing the Greece 2.0 reforms, maintaining a primary surplus of at least 1.5% of GDP, and achieving investment grade rating to reduce interest costs will bring the debt-to-GDP ratio to 100% by 2060 (Figure 1.15, Scenario 1.a.). If the primary budget surplus is only maintained at 1.0% and spreads on government debt decline by less, public debt would fall more slowly, reaching around 120% of GDP by 2060 (Scenario 1.b.). Conversely, without implementing the Greece 2.0 programme, public debt would start rising relative to GDP from the mid-2030s, even while maintaining a primary budget surplus of 1.0% of GDP (Scenario 0.b.). Accounting for the modestly slower growth due to the investments for the green economy in the 2020s and 2030, followed by slightly stronger growth in the following years has minimal effect on the public debt ratio. The scenarios all account for the projected broadly stable overall fiscal cost of pensions, health and long-term care up to 2050 and their declining cost thereafter (Box 1.7).

Figure 1.15. Sustained reforms and investments are needed to lower the public debt ratio

Projected gross government debt (Maastricht definition) as % of GDP



Note: Policy scenarios are described in Table 1.6 and scenario numbers 0, 1 and 3 refer to the numbering in that table. In the 'primary surplus at 1.6% of GDP, spreads fall to 130bps' scenarios, the 'a' scenarios illustrated with solid lines, from 2024 the budget primary surplus is projected to be 1.6% of GDP, and market interest rates to be 4.3%. In the 'primary surplus at 1.0% of GDP, spreads fall to 180bps' scenarios, the 'b' scenarios illustrated with dashed lines, from 2024 the budget primary surplus is projected to be 1.0% of GDP and market interest rates to be 4.8%. In both groups of scenarios, long-term risk-free interest rates are projected to decline from current levels to 3.5% from 2026; interest rates on official debt are expected to remain at 1.4%, based on (Bank of Greece, 2021[15]), and the GDP deflator is projected to rise by 2.0% annually from 2025.

Source: Simulations based on the OECD's Global Long-Term Model and Eurostat population projection scenarios, and OECD Economic Outlook 112 (database), updated.

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Raising the effectiveness of public spending

Greece has reduced its public spending as a share of GDP over the past decade from among the highest in the OECD to the OECD average (Figure 1.18, Panel A). This performance has in part been achieved by Greece consistently underspending its budget plans, most notably its investment budget (Figure 1.18, Panel A). Spending on public pensions, payroll and debt servicing is relatively high and crowds out spending in areas that best support long-term gains in productivity, employment and living standards, such as education, infrastructure and targeted social protection (Figure 1.18, Panels B and C). Difficult reforms over the past decade have allowed Greece to stabilise pension spending relative to GDP, reducing fiscal pressures and inter-generational inequalities. Debt restructuring has reduced interest expenses by 3% of GDP over the past decade, allowing for higher spending in areas that can support more inclusive growth such as general social protection.

Better disbursing public investment

The government increased the public investment budget to over 5% of GDP in 2022, and 4% of GDP in 2023, compared with a low of 2.5% of GDP in 2019. This increase in public investment, plus higher capital transfers, are being funded through the Greece 2.0 Recovery and Resilience Plan projects financed by the NextGenerationEU grants, adding to additional nationally financed public investment spending (see Box 1.2). Greece is already receiving the initial disbursements as it implements the first policy reforms and investment projects. The government is spreading this increased investment across well-recognised priorities, including expanding access to digital infrastructure and digitalising the public sector, improving transport infrastructure, and supporting the green economy transition (discussed in Chapter 2).

Box 1.7. Greece's recent pension reforms contribute to containing the long-term costs of ageing

Greece's public pension spending remains high relative to other OECD countries but is projected to decline in the 2020s, then to broadly stabilise, and then to further decline after around 2050. Declining pension spending is projected to more than offset rising health care costs, such that the overall cost of ageing is broadly stable up to around 2050 and then declines.

The recent introduction of a defined contribution supplementary pension is likely to improve the pension system's long-term sustainability and encourage employment, even if the transition will entail modest additional fiscal costs. Those starting work from 2022 will make defined contributions of 6% of their total gross employment costs to an individual account to cover old age, disability and spousal pensions. Younger workers already in the workforce may shift to the new scheme. When these workers reach the retirement age of 67 they will be eligible to receive an annuity based on their contributions and the returns on their chosen investment strategy, and those with short contribution histories will receive a lump-sum repayment. The scheme will provide a minimum disability or spousal loss pension, which can help address the higher risk of poverty among these groups, discussed in the 2020 Economic Survey of Greece (OECD, 2020[16]). The transition from the existing notional defined contribution scheme to the new scheme will bring a modest fiscal cost that is expected to rise gradually to peak mid-century, and the government is estimating this as an update to the EU Ageing Report projections.

From 2021, the self-employed will be required to pay only flat-rate pension contributions, which they can voluntarily top-up, while auxiliary pensions remain voluntary. Previously, contributions were based on declared profits from the self-employed activity. This measure may address the risk of self-employed under-declaring their earnings, but low contributions among the self-employed will widen the gap in retirement income to less than half of equivalent employees' contributions. This may lead to low incomes in old age for many current self-employed. In other reforms Greece increased the share of a pension that can be received while working from 40% to 70%, which may support longer careers but may create a risk that some workers start drawing their pensions early.

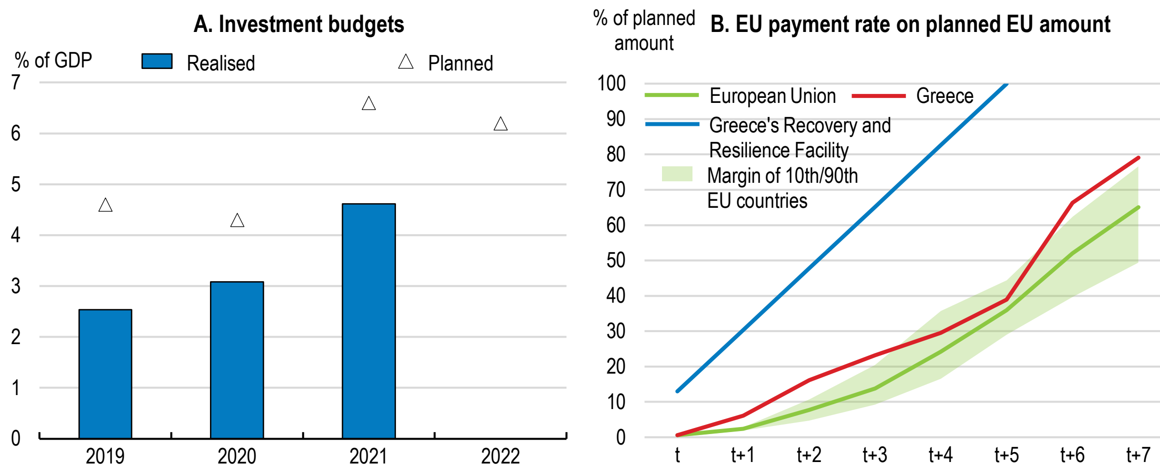
Sources: (OECD, 2021[17]); (European Commission, 2021[18]).

Preparing Greece's infrastructure for a sustained recovery and the green economy transition will require more and better-quality public investment. Quality infrastructure investment in Greece, especially in areas where Greece's public capital stock is low, is likely to bring strong returns, strengthening both activity in the short term and employment into the longer term (Mourougane et al., 2016[19]; Pain et al., 2018[20]). One additional euro of EU investment funds over 2009-2017 is estimated to have raised Greece's GDP by EUR 0.64 in the short-run, rising to EUR 1.55 in the long run through the hysteresis effects of investments in areas such as education and training, and research and development (OECD, 2020[21]).

European funds' large share of total spending makes improving Greece's administrative capacity to disburse these funds a priority. Over 2019-2021, realised investment spending was EUR 10 billion or nearly 35% less than planned (Figure 1.16, Panel A). Disbursement improved in 2020 and 2021 as about 40% of the total public investment budget was allocated to fast-disbursing emergency programmes providing support to the COVID-19 crisis and natural disasters. All European countries have found disbursing European funds challenging, and Greece has consistently been among the best performers (OECD, 2021[22]). Yet, 20% of its 2014-2020 allocation remained undisbursed in 2021 (Figure 1.16 Panel B). Delays disbursing these funds risk exerting a drag on overall investment spending in the coming years, given that about 84% of Greece's public investment budget was co-financed from European Union funds in 2022 (Figure 1.17), slightly more than the average of the last decade.

The government is implementing reforms to its public investment project management and monitoring capacity, and to improve public procurement processes. Greece's central government implements about 80% of public investment spending, one of the higher shares across OECD countries. Fully implemented, these reforms can help improve disbursement rates and the quality of spending. The central government is making efforts to improve coordination and communications in how the public investment budget is managed and monitored, and how projects are implemented. To support implementing Greece 2.0, the government has created dedicated project delivery units with specialised project design and management capacity, and monitoring and auditing processes. Drawing lessons from the effectiveness of these units and other measures to develop capacity and streamline processes can help Greece improve its public investment spending beyond Greece 2.0.

Figure 1.16. Better spending of EU funds would lift public investment



Notes: Panel A: Planned public fixed capital formation are the amounts proposed in the draft budgets presented to Parliament for the following year. 'Realised' investment budgets are the amount of capital expenditure recorded in the national accounts after the end of the fiscal year. The ratios are calculated with respect to realised nominal GDP. Panel B: Funds disbursed for EU structural funds. Panel B: The lines indicate the amount of programmed funds disbursed each year after the start of the programmes. The red and green lights indicate the share disbursed by Greece (red line) and on average across the European Union (green line, with shaded area indicating the 10th to 90th percentile of EU countries) from the first year (2014) to seventh year 2021) of the 2014-2020 European fund programming period. The blue line indicates Greece's planned disbursement share of its NextGenerationEU grants and loans, from its start in 2021 to its fifth year in 2026.

Source: OECD (2022), Economic Outlook (database); Ministry of Finance of Hellenic Republic (2018 to 2021), *Draft Budgetary Plans* 2019-2022); and European Commission.

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After 2026, maintaining high rates of public investment is likely to require greater national resources. Greece is among the OECD countries most reliant on EU funds for its public investment. Preparing for greater national financing of public investment would avoid future shortfalls in public investment (Figure 1.17). The NextGenerationEU facility will sustain high levels of public investment until 2026, while the current EU structural fund cycle runs to 2027. The NextGenerationEU facility is an exceptional European response to the COVID-19 crisis. Greece's annual receipts of European structural funds peaked in 2013, and future allocations may not be expected to keep pace with Greece's projected GDP growth. Identifying additional national financing will be challenging given Greece's limited fiscal space. Improving project design and spending efficiency, and raising the roles of subnational administrations and of the private sector in public investment projects can expand resources available.

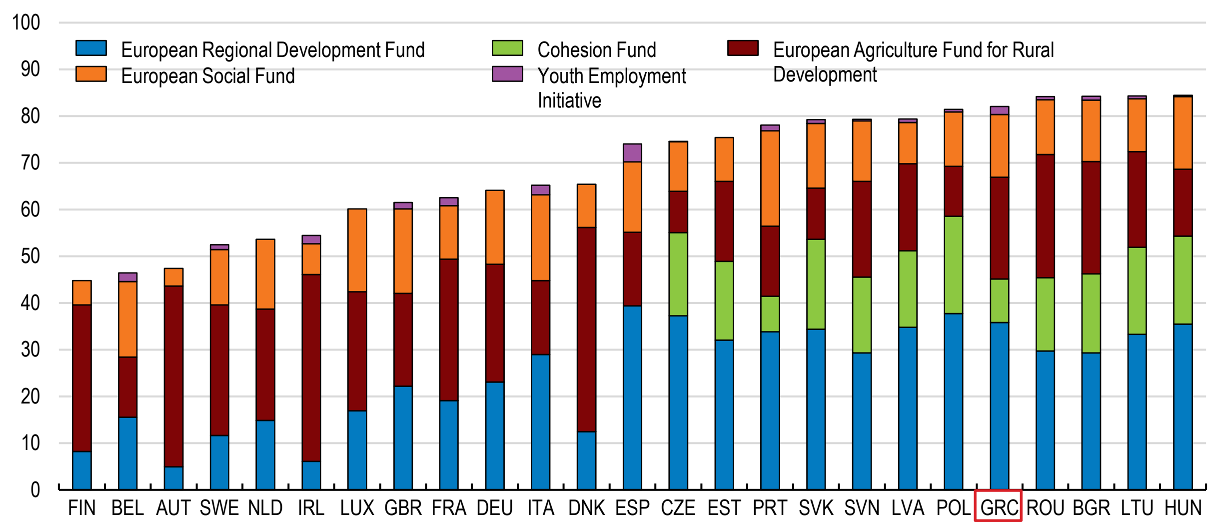
Strengthening the budget process to support higher-impact spending

The cost-effectiveness of Greece's spending varies, and surveys find satisfaction with public services to be improving from relatively low levels (OECD, 2021[23]). In some areas, Greece outperforms, such as its relatively solid health outcomes compared with its relatively low spending (OECD, 2021[24]). In others, such as education, both spending and outcomes fall short of other OECD countries (for example, regarding overall skill levels of adults, (OECD, 2019[25])), and the government is undertaking extensive reforms intended to improve outcomes (discussed in more detail in the (2020[16]) Economic Survey of Greece). Targeted social protection spending for families remains low, and reforms to social protection, along with the recent rises in employment, are making inroads into the relatively high material deprivation rates among families and children.

Greece can raise the quality of its public spending by continuing efforts to improve its budget process, through incorporating into spending decisions the effects of spending. Its annual budget process now incorporates spending reviews, of both horizontal spending issues and focusing on priority sectors. The revised Chart of Accounts provides Greece with a more powerful tool to assess spending allocations. Through improved tracking of spending, Greece can respond faster in cases of over- or under-spending. These tools provide better information about public spending allocations by the public sector with respect to public goals. Integrating these improvements into the medium-term expenditure framework, for example by developing reliable and sufficiently detailed multi-year costings of policies, would allow policy decisions to better account for their longer-term fiscal implications (Moretti, Keller and Chevauche, 2019[26]). As staff capacity and data collection deepen, linking spending allocations with analyses of the effects of spending can help in reallocating funds to measures that better support growth.

Figure 1.17. Greece's public investment is highly reliant on European funds

Financing by EU funds, as % of total public investment, 2014-2020



Source: European Commission, European Structural and Investment Funds.

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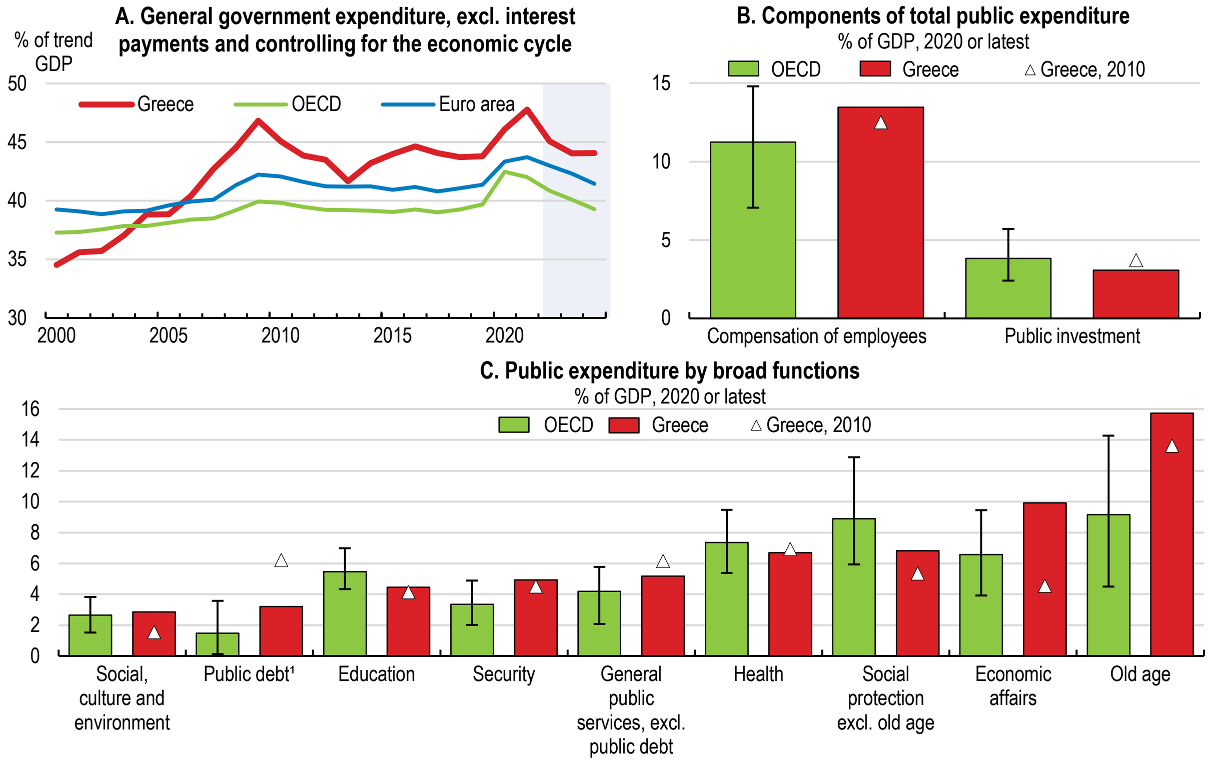
Greece is increasing the role of performance information in its budgeting. Many OECD countries have found implementing full performance-based budgeting to be challenging. Box 1.8 presents some lessons from their experiences. Greece's 2022 budget for the first time included performance data for all central government bodies. Further progress in incorporating performance information into Greece's spending reviews and in formalising the reviews' role early in the annual budget cycle can ensure that performance information helps prioritize spending. Centralising the core performance budget work while developing capacity in line ministries to access, adapt and analyse performance information, may be the most effective strategy in Greece's context. For example, the Fiscal Council is demonstrating its effectiveness in monitoring the budget's macroeconomic assumptions. It could strengthen its role in reviewing the government's expenditure plans and medium-term projections by also reviewing budget management processes or the performance of spending in priority areas, following the example of Italy's Parliamentary Budget Office.

Figure 1.18. Despite a decade of spending control and reallocation, Greece's overall public spending provides limited resources to growth-enhancing areas



1. Public debt expenditure includes interest payments and outlays for underwriting and floating government loans.

Note: Panels B and C: The figure shows public expenditure by broad function. The OECD averages are not weighted and do not include Canada, Mexico, New Zealand and Türkiye, while the whiskers show the range between the first and last (unweighted) decile of the OECD countries.

Source: OECD (2022), OECD Economic Outlook 112 (database), updated; OECD (2022), National Accounts Statistics (database).

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Box 1.8. Improving the budget's focus on performance

Experience across OECD countries shows that performance budgeting can help to improve resource allocation and to develop a performance culture across the public sector. Performance budgeting is most useful when there is a limited number of meaningful performance indicators and a strong political or managerial ownership over the results achieved.

Collecting, analysing and taking decisions based on performance information is demanding. It requires strong information systems and staff in the central finance agencies and line ministries who have the skills and authority to analyse and use the information collected.

Presentational performance budgeting shows outputs, outcomes and performance indicators separately from the main budget document, improving transparency about the government's policy priorities but has limited influence on spending.

Performance-Informed budgeting is more ambitious, as it includes performance metrics within the budget document, and structures the budget on the basis of programmes. It can help achieve more ambitious re-prioritisation of expenditure linked to performance and to devolve more budget control to programme managers. A plurality of OECD countries has adopted this approach, including Austria, France, Japan, the Netherlands, New Zealand and Sweden.

Source: (Keller, 2018[27]) (OECD, 2019[28]); (Schick, 2014[29]).

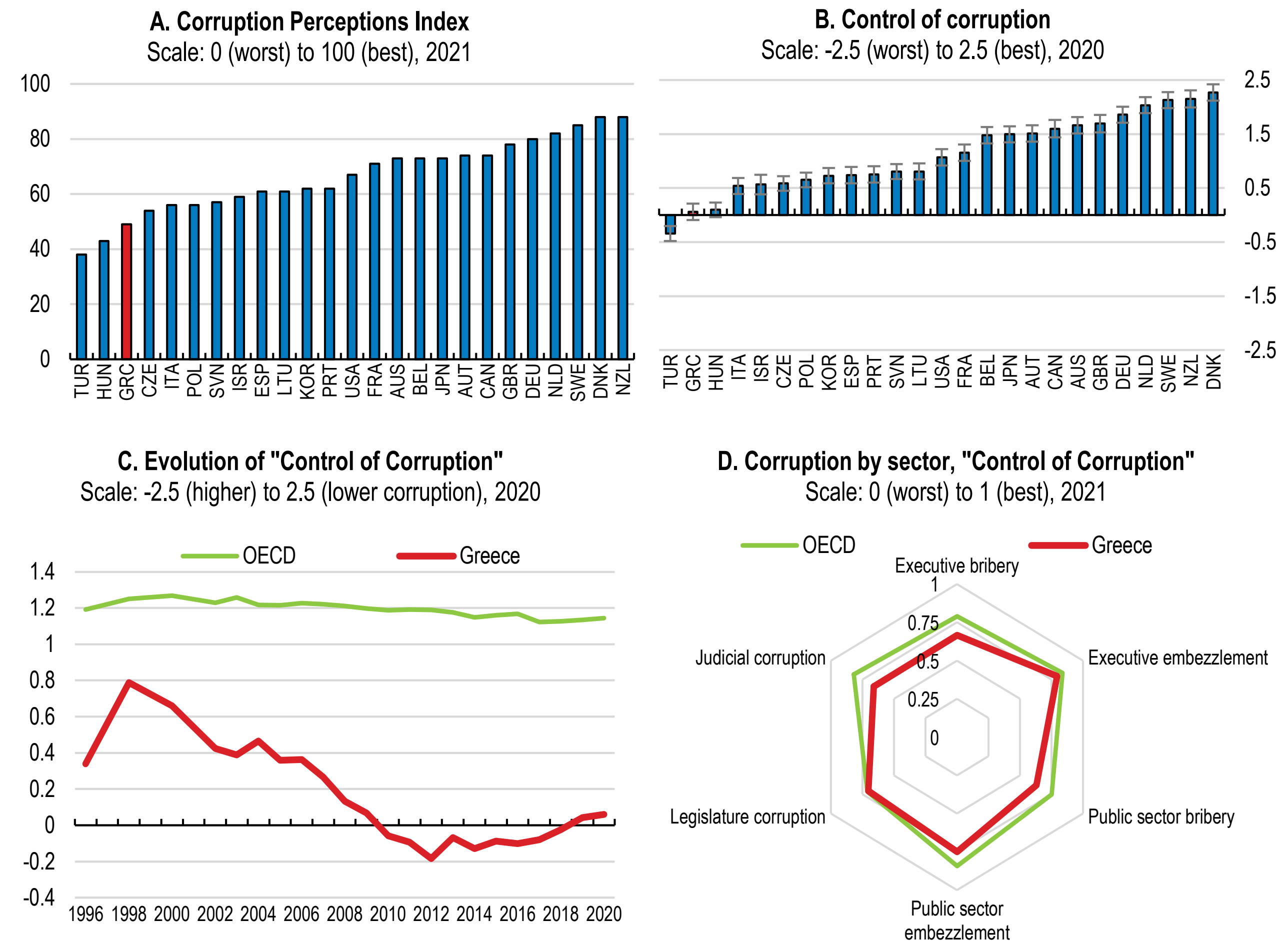
Raising the integrity of public spending and services

A high level of integrity in public spending improves value for money, and contributes to greater confidence in public institutions, which brings broader benefits. Greece is making progress in strengthening its public sector integrity. Over recent years, expert and business observers perceive the incidence of corruption in public spending to have gradually declined, improving Greece's ranking among OECD countries, even if corruption is still perceived to be a greater issue than in most (Transparency International, 2021[30]) (Figure 1.19). The European Commission's 2021 Rule of Law Report notes gradually improving administrative capacity, but that shortcomings remain regarding the effectiveness of action against high-profile corruption, largely due to insufficient staffing or systems, adding to the disruption from frequent reforms to laws and regulations (European Commission, 2021[31]). Further steps to continue to improve integrity could include the launch of the Transparency Register envisaged by the revised law on lobbying, and adopting draft legislation to encourage and protect whistle-blowers The ongoing reforms to administrative and regulatory processes create opportunities to further improve integrity, for example by raising the accountability of regulatory agencies, and limiting specific agencies' exceptions to these reforms.

Even if Greece's overall spending mix passes a lower share of spending through the public procurement system than in most other OECD countries, raising the performance of public procurement can improve integrity, value for money and timeliness of spending. Greece has undertaken many reforms to its public procurement systems over recent years. A 2021 law simplifies bureaucratic steps and seeks to focus procurement processes more on price and quality aspects than on formal diligence processes. The Greece 2.0 Recovery and Resilience Plan includes reforms to overcome procurement bottlenecks by simplifying arrangements, for example by raising the threshold below which procurements can follow simplified procedures. Simplified processes may accelerate spending. At the same time, regularly assessing procurement quality, strengthening procurement processes and the role of central, dedicated agencies with specialised competencies can help balance integrity, responsiveness and value-for-money.

Greece's procurement system is fragmented across the public sector. It could be streamlined by strengthening the Hellenic Single Procurement Authority's role, and the regulatory and operational oversight of the Authority (MAPS, 2022[32]; Pronto, 2019[33]). A stronger Authority would bring together the professional staff with the needed skills and experience from across different public agencies. It can lead in the planned streamlining of e-procurement and information systems, collect and analyse data on procurement performance, and provide a centre to support other contracting authorities. The authority could develop framework agreements and require government agencies to use these; Greece is one of only several OECD countries that do not follow the 2015 OECD Council Recommendation on mandating the use of framework agreements (OECD, 2019[34]). In time, a stronger Hellenic Single Procurement Authority would enable more contract awards to be based on most economically advantageous criteria rather than lowest cost criteria, and allow procurement to support broader policy goals, such as sustainability and business development.

Figure 1.19. Improving integrity and reducing perceived corruption will require further efforts



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.
Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12.

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Better staffing the public service

Ensuring adequate resources and well-trained, professional staff are in place is key to timely and quality delivery of public services and public investment. Even after a decade of public service austerity, the public wage bill is relatively high, and the difference between public and private sector pay rates for professionals is comparable with other OECD countries (World Bank, 2021[35]). The public service is well-staffed overall in terms of staff numbers, especially among public administration workers, and the share with tertiary education compares favourably with the overall population and the private sector. However many public servants lack the needed technical or operational skills, including in key areas such as procurement, or in implementing and using the public sector's increasing digitalisation (Pronto, 2019[33]; Spinellis et al., 2022[36]).

While avoiding growth in overall public service staff numbers, Greece can attract needed skills and raise its public service's performance through reforming how it recruits new public servants. Hiring freezes have led the share of younger employees in the public service to fall to among the lowest across the OECD (OECD, 2021[23]). Meanwhile the number of public workers employed on rolling short-term contacts has become significant and rose further to meet urgent staffing needs during the COVID crisis.

Improving the reactiveness of the recruitment process, alongside reforming public servants' ongoing contractual arrangements and performance assessment and rewards, would help rejuvenate Greece's public service. Greece's central public service recruitment body, ASEP, is introducing reforms to digitalise recruitment. It could strengthen its role in attracting strong candidates by developing a central employment portal for government jobs. ASEP could more actively identify current and projected skill needs, for example collaborating with the Ministry of Digital Governance, so as to target graduates and diaspora with needed skills. The ongoing development of complementary wage grids in independent authorities, which link part of staff remuneration with job descriptions and grading without undermining the unified wage grid, can also improve the attractiveness of public service positions and avoid gaps widening with private wages for specialised and technical skills.

Greece plans to strengthen the role of a common public service exam that all candidates must sit, followed by skill-specific examinations. This goes in the opposite direction of the reforms in a number of other OECD countries, including those with similar institutional traditions, such as Italy (OECD, 2021[37]). Even so, these countries' experience highlights which assessment techniques are fruitful and Greece can seek to incorporate these. At the same time, ASEP can focus its recruitment process to respond to the evolving needs of the agencies responsible for delivering public services, targeting both job-specific and transversal skills through a process that attracts the highest-calibre candidates.

Focusing staff allocation and work practices on outcomes would improve policy implementation and service delivery. The trial of bonuses in the Greece 2.0 programme is an opportunity to assess whether these help raise performance, and if they benefit and attract higher-performing and more specialised staff. A recurring challenge in public sector management in Greece is that key areas and functions suffer from under-staffing or that staff time is not allocated to core service delivery functions. For example, staff cuts in the Ministry of Environment and Energy's inspectorate division led to a sharp decline in the number of inspections, and only a small share are allocated to the most risky activities (OECD, 2020[38]). Linking the performance information being developed to improve the budget process with decisions about staff allocation and activities could help to redress such challenges.

Past OECD recommendations on public sector efficiency policies and actions taken

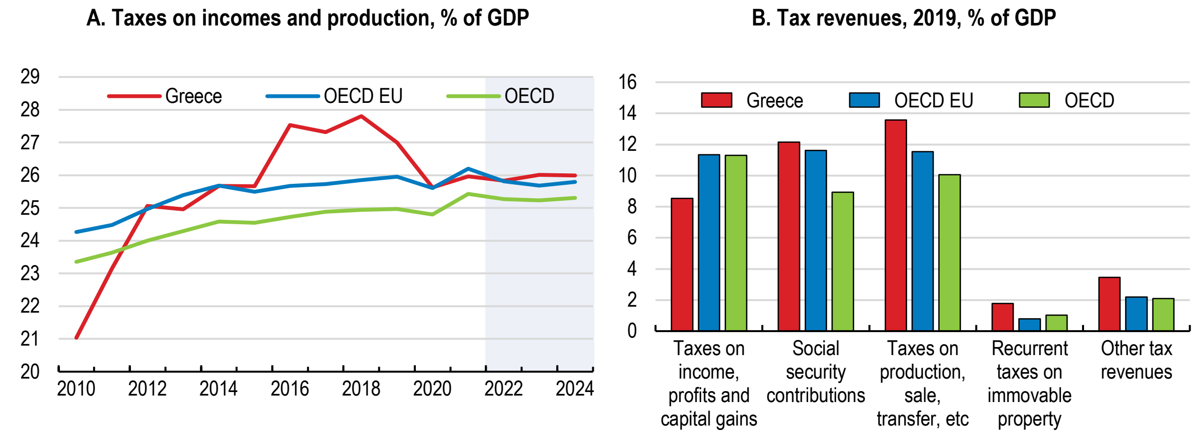
Past recommendations	Actions taken
Adopt key structural reforms to boost growth and enhance administrative capacity to improve overall reform implementation.	Authorities have adopted a performance budgeting framework under the 2022 Budget. Authorities are implementing a reform for the enhancement of state aid institutional digital capacity, with the aim to improve state aid and facilitate the implementation of public investments.
Speed up the modernisation of the public employment service.	The new legislative Framework for the Public Employment service to modernise the service and introduce new digital tools has been voted and is being implemented.
Build capacity to assess the impact of reforms and reinforce coordination across line ministries.	The General Secretariat for Coordination has been given responsibility to coordinate line Ministries during drafting and implementation of policies.
Pursue plans to accelerate the digitalisation of the public administration.	The single digital portal (gov.gr) has been set up, backed by relevant initiatives to ensure system interoperability and robustness, in line with the guidelines and priorities set out in the National Digital Transformation Strategy and the urgent needs arising from the evolution of the pandemic. The implementation of a new version of the Open Data Portal (data.gov.gr) is in progress to improve the technical features and functions of the data repository and to raise the quality of the information provided.
Train staff in payment processes including at the local level.	Relevant action not identified.
Stagger the appointment of members of boards of independent authorities.	Relevant action not identified.
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. Consider introducing permanent mechanisms for out-of-court debt settlements in conjunction with ongoing efforts to strengthen mediation processes in the justice system.	In January 2022 a legislative committee was established by the Minister of Justice to prepare provisions for a new school to train judicial clerks, with the intent to pass the relevant legislation through parliament within the year. Training and examinations at the Training Institute of the National Centre for Public Administration & Local Government and the Supreme Council for Civil Personnel Selection have been made mandatory for a judicial clerk to be promoted to head of department, directorates or general directorate. Continuing training programs have been made mandatory for all judges from the rank of appeal court judge and below. In addition, ad hoc training programmes are provided for judges of all branches and levels who are called upon to implement new regulations. Law introduced to widen training of judges to encompass judicial management, communication, code of conduct, and economic issues including competition, energy, capital markets and consumer protection. The reformed insolvency code provides for a permanent out-of-court restructuring mechanism, and for a pre-insolvency procedure.

A broader, more efficient and more equitable tax system

Tax reforms require careful balancing between reducing disincentives to invest and employ, while supporting revenues and equity and limiting distortions. Greece is reducing a number of its tax and contribution rates (Table 1.9). Labour and capital income taxes generate a low and declining share of public revenues relative to other OECD countries, while value added taxes and social security contributions generate relatively larger shares of revenues (Figure 1.20). Greece's direct tax receipts have declined since the late 2010s as a share of GDP to be below the average of the OECD EU countries and only slightly higher than the average of all OECD countries. In contrast, receipts from social security contributions are high (Figure 1.20 Panel B), raising the overall burden to above most other OECD countries, largely reflecting the financing needs of the legacy public pension systems.

These trends, looming investment needs, and the ongoing need to support fiscal health suggest tax and contribution reforms will need to maintain current levels of overall revenue. Instead, focusing future reforms on broadening the tax base and ensuring adjustments to rates reduce distortions would support growth and improve equity across current and future generations. Future reforms can broaden Greece's relatively narrow base of taxpayers, especially by improving payments from the self-employed, reducing distortions and ensuring taxes and contribution rates balance progressivity with efficiency.

Figure 1.20. Consumption taxes and social contributions outweigh income taxes in Greece's public revenues



Note: OECD EU is the unweighted average of OECD countries also currently European Union members. Panel A: Figure does not include social security contributions. Taxes on incomes and production include direct taxes on income, wealth and other recurrent taxes, and indirect taxes on production and imports. OECD unweighted average excludes Chile and Türkiye.
Source: OECD (2022), OECD Economic Outlook 112 (database), updated; OECD (2022), OECD Global Revenue Statistics (database).

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Table 1.9. Greece is cutting labour income tax and contribution rates and indirect taxes paid by households

	Date introduced	2022 budgeted value
Reduction of VAT rates for transport, gyms, swimming pools and dance schools, soft drinks, cinema tickets, tourism package, imports of art and antiques. Suspension of cable TV fee.	2020	-0.1%
Private sector employees social security contributions cut by:		-0.4%
0.9 percentage points (permanent)	2020	
3.0 percentage points (temporary, to end of 2022)	2021	
0.5 percentage points (permanent, relating to supplementary pensions	2022	
Suspensions of the social solidarity income tax surcharge for private sector employees, to be extended to public sector workers from 2023 (the government intends to make the suspension permanent should fiscal space permit)	2022	-0.4%
Tax on parental benefits/donations up to EUR 800 000 suspended for first degree relatives	2021	-0.0%
Reforms, rate adjustments and property revaluations of ENFIA property tax	2022	-0.2%

Source: Ministry of Finance, Greece, 2022 Budget, 2022 Stability Programme and 2022 National Reform Programme.

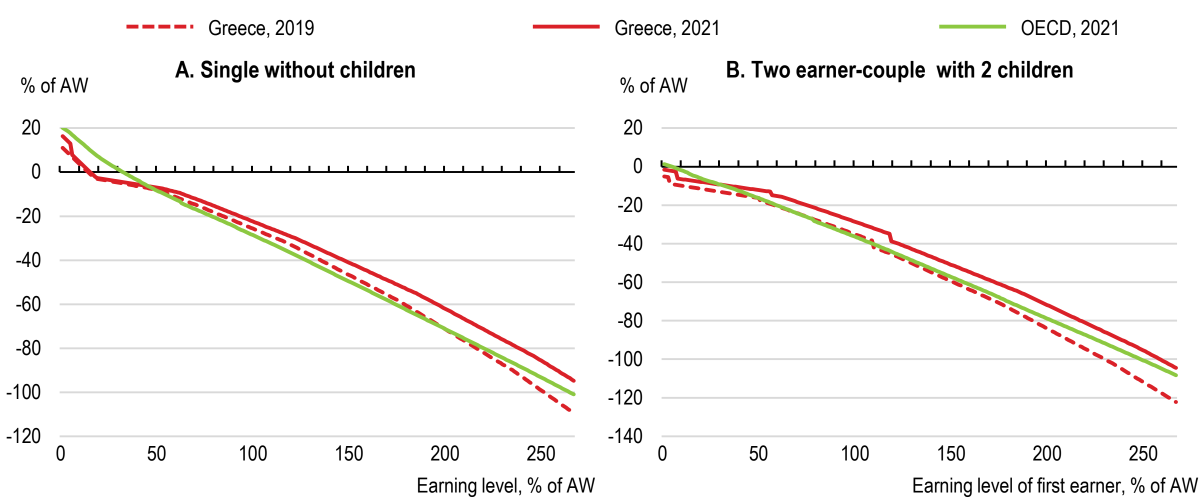
Greece is lowering the overall labour income tax and contribution wedge. It is approaching European and OECD averages (Figure 1.21). Greece will supress the special solidarity contribution income tax surcharge for all employment and pension income from 2023. The surcharge was introduced as a temporary measure during Greece's fiscal crisis to raise additional revenues. This cut follows temporary and permanent reductions in the social contribution rates over recent years (Table 1.9). Focusing future income tax reforms on expanding the share of lower wage workers who pay income tax, even at low rates, while reducing the tax burden at moderate incomes, would broaden the tax base and maintain revenues. Such adjustments along with ongoing improvements in enforcement could help raise tax declarations from Greece's large numbers of self-employed workers, who are more likely to under-declare their taxable income (discussed in the (2020[16]) Economic Survey of Greece).

Greece has reduced taxes on capital. The combined rate on corporate income and distributed profits is among the lowest in the OECD (Figure 1.22), and other taxes on capital income are relatively low. In addition, the government is exempting gifts and inheritances worth less than EUR 800 000 from gift and inheritance taxes. These reforms, along with the reforms to improve other aspects of the business environment (discussed elsewhere in this chapter), contribute to addressing some of the barriers to private investment. Focusing future reforms on boosting compliance, especially among the self-employed (discussed in the 2020 Economic Survey of Greece (OECD[16])), rather than further lowering rates would better balance revenues and activity.

Higher collections and compliance are financing some of these cuts in tax rates. The growth of e-transactions, accelerated by the COVID pandemic, digitalisation of the tax administration, and simplification of VAT obligations are raising compliance rates and reducing costs for businesses. However, collections and compliance remain challenges. This is most readily observable in consumption tax collections. Consumption taxes' share in total revenues is high, reflecting Greece's high consumption tax rates. However, the gap between VAT revenues that Greece could theoretically collect and those actually collected remains among the widest of OECD EU countries, despite important progress over recent years (Figure 1.23). In recent years, the loss of revenues from reduced rates and exceptions more than offset the improvements in compliance. Further cuts in the VAT rates for some consumer services introduced during the COVID crisis, and extended to the end of 2023, are likely to have further weakened collections.

Figure 1.21. Recent reforms have reduced the labour income tax wedge

Difference between gross earnings and net income, in percent of average wage (AW), by gross wage levels



Note: Positive values indicate net income is greater than gross earnings (e.g., benefits, tax credits or other support raises net income above gross earnings), while negative values indicate tax net income is below gross earnings, due to taxes and contribution payments. The values are presented in percent of the average wage to be comparable over time and across OECD countries. OECD averages are unweighted averages of net income as a per cent of the average wage across OECD countries excluding Australia, Canada, Chile, Israel, Korea and New Zealand. The average of OECD-EU countries is not shown as it is similar to the OECD average. Policies are on 1 January of the indicated year. In both panels, the household claims social assistance and housing benefits with an annual housing cost of 20% of the AW. Panel B: Children are aged 4 and 6; the second earner works full-time and earns 67% of the AW. The drop in net income at earnings between 110% and 120% of the average wage is due to the withdrawal of means-tested family benefit.
Source: OECD Tax and Benefit Model TaxBEN 2.4.0, http://oe.cd/TaxBEN.

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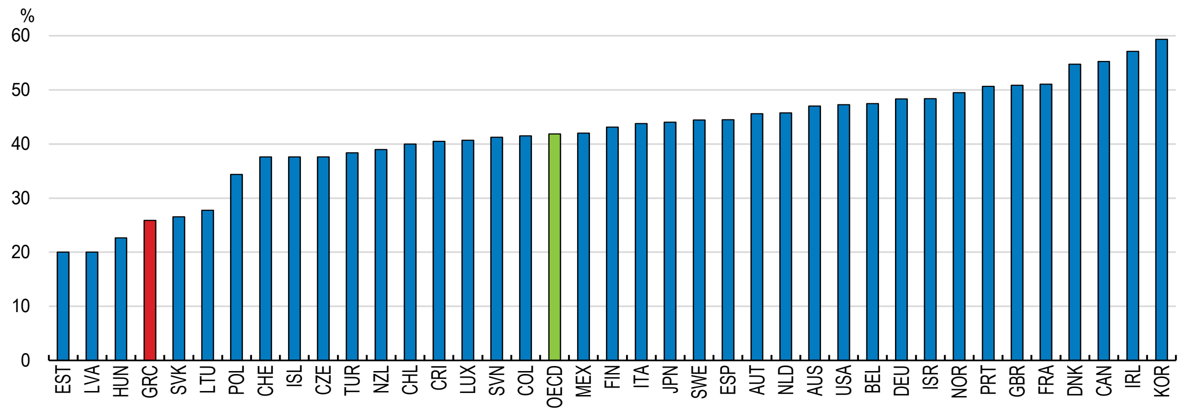
Figure 1.22. Taxes on distributed profits are low

Overall statutory (corporate plus personal) tax rate on dividend income, 2022



Note: OECD unweighted average.
Source: OECD (2022), Tax Database.

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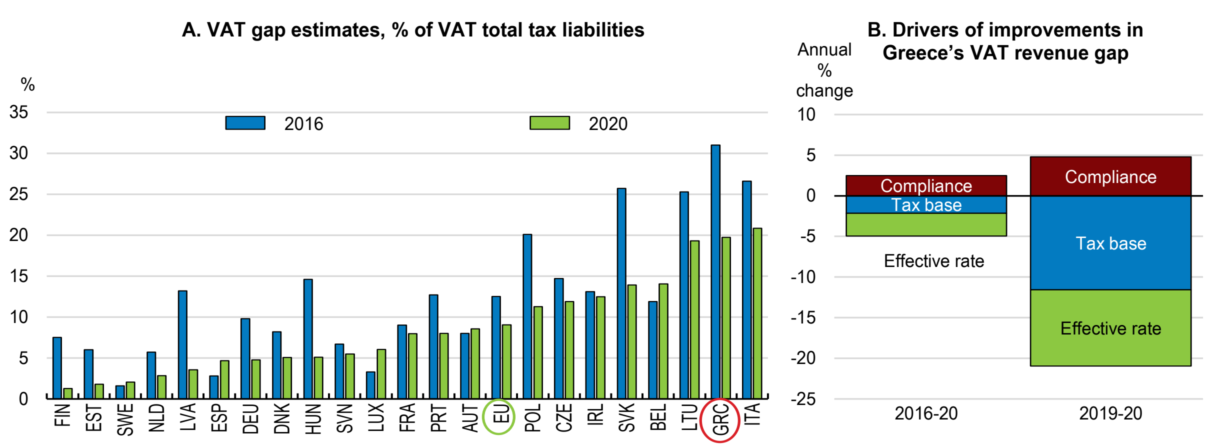
Limiting the number of reduced rates and exceptions can support revenues and limit distortions and inefficiencies. Greece can ensure that temporarily reduced rates end as scheduled, for example by introducing default sunset clauses on tax expenditures. Ensuring that tax expenditures are retained no longer than required to achieve their objective balances the integrity and efficiency of the tax system with their temporary policy goals. For example, measures to rebuild demand for sectors buffeted by the COVID crisis, such as reduced VAT rates for accommodation, may in some cases be justified temporarily by the sector-specific shock, but are likely to be less fiscally effective than targeted spending such as support for better quality services, infrastructure or promotional campaigns. In Greece, regularly publishing lists and estimated costs of its exemptions and other tax expenditure should be a priority, following EU requirements and the practice of countries such as Belgium. To evaluate comprehensively whether these revenue losses or other distortions are good investments, the objectives or estimated benefits of these exemptions can be presented alongside their costs.

Figure 1.23. Despite improving compliance, the VAT gap remains high



Note: The VAT Gap is the overall difference between expected VAT total tax liabilities estimated from VAT legislation and ancillary regulations and actual consumption expenditure, and the amount collected.
Source: EC (2021), Directorate-General for Taxation and Customs Union, VAT gap in the EU: report 2022, https://data.europa.eu/doi/10.2778/109823, report 2021, https://data.europa.eu/doi/10.2778/447556, report 2020, https://data.europa.eu/doi/10.2778/2517 and report 2019, https://data.europa.eu/doi/10.2778/04272.

StatLink https://stat.link/7niq41

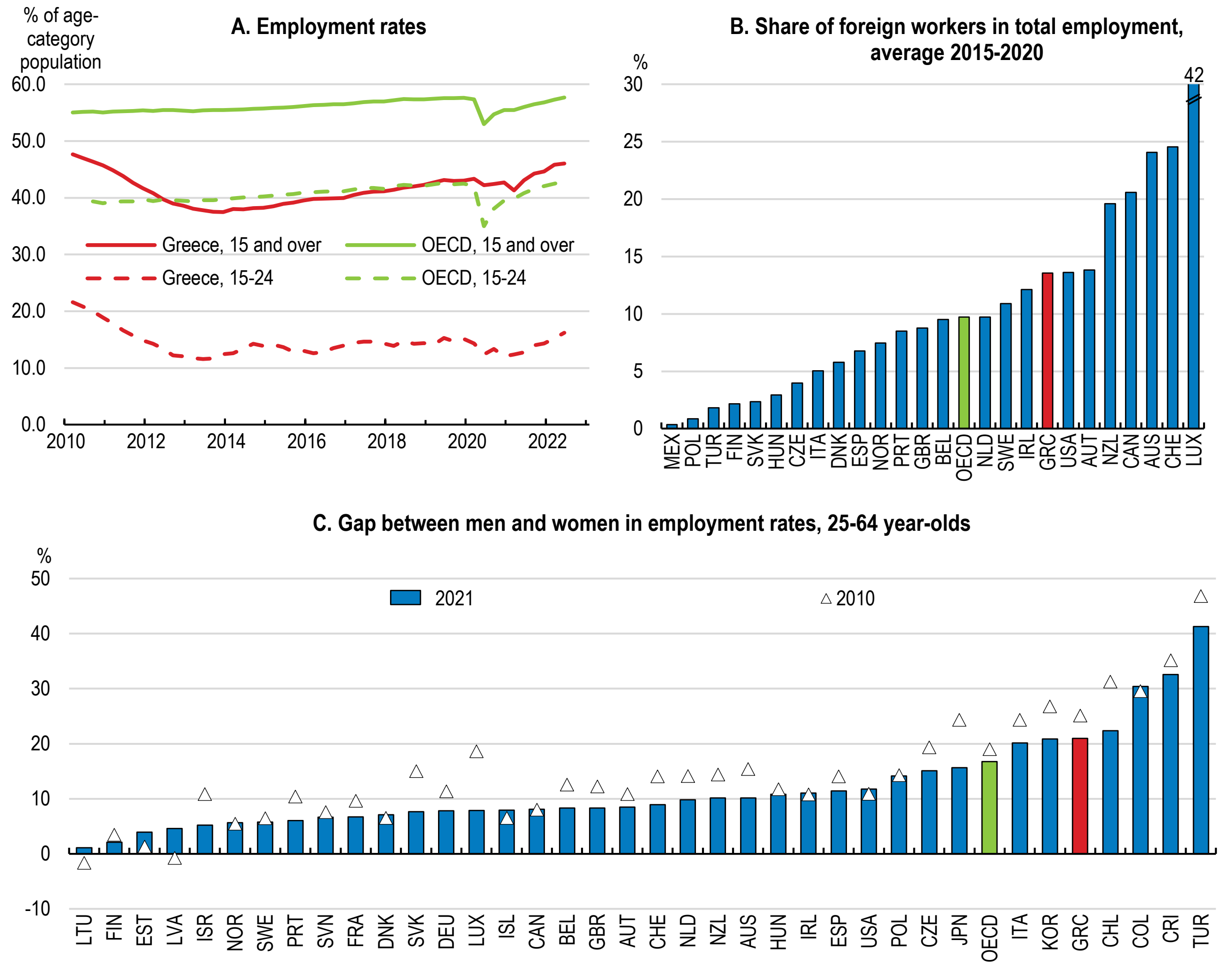
The government's efforts to make tax compliance easier can boost collection and improve the business environment. Greece is implementing incentives for electronic transactions, which are more readily monitored. The ongoing codification of taxation laws and simplifying procedures and interactions with the tax authorities can improve compliance, and raise the quality of the business environment. These measures complement the Independent Public Revenue Authority's improving capacity and growing functions, although recruitment and other operational challenges have slowed progress in some important areas, such as setting-up IT systems. Greece's revenue collections and compliance costs for businesses would benefit from following some other OECD countries in developing a 'compliance support' rather than 'compliance enforcement' approach in their revenue authorities, prioritising support for smaller taxpayers with fewer resources to comply.

A better operating labour market to boost employment and incomes

Employers report growing difficulties in recruiting employees, especially for occupations and regions already suffering from labour shortages or experiencing strong growth in activity, such as in information technology and construction. This is a growing, although still relatively modest, factor limiting production and wage costs are accelerating. Even prior to the COVID recovery, Greece has had one of the highest mismatches between workers' skills and employers' needs, as discussed in previous OECD Economic Surveys (2018[39]; 2020[16]). The recent growth in employment is likely to have amplified skills shortages. Employment rates have risen most strongly for more educated workers and for prime working-age men. Employment growth has lagged for younger workers, new to the workforce, and women, even after accounting for the strong employment growth in 2021 with the post-COVID economic rebound (Figure 1.4, Panel B and Figure 1.24, Panel A).

Raising Greece's low employment rates among these groups would help offset the declining working-age population and support income growth, as discussed above. Ageing will see the working-age population fall by 0.3% a year on average this decade, accelerating to 0.8% a year next decade. Fully implementing and building on the measures laid out in the Greece 2.0 Recovery and Resilience programme can improve matching of workers with employers, develop and reward skills, attract groups that currently have low participation rates into the labour force, and maximise foreign-born workers' contribution.

Figure 1.24. Employment rates remain low, especially among the young and women



Source: OECD Labour Force Statistics (database); and OECD Database on Immigrants in OECD and non-OECD Countries (OECD DIOC).

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Boosting the contributions of youth, women and foreign-born workers

Employment among youth is low in Greece, despite recent progress as the economy recovers. Structural reforms to the labour market are being implemented. Raising youth employment can offset the effects of the ageing workforce, support the productivity and earnings of today's youth over their lifetime, and improve the attractiveness of remaining in Greece rather than emigrating. By the end of 2021, the share of youth not in employment or education had improved to 17%, almost 10 percentage points lower than a decade earlier and only modestly higher than the OECD average. Since the removal in 2019 of the subminimum wage for workers younger than 25 effectively raised their wage rate by 27% employment rates for younger workers have risen by less than other groups (Figure 1.4, Panel B).

The government is introducing some policies that cross-country experience suggests can raise youth employment (Kluve et al., 2016[40]). It introduced and, in 2022, extended an employment subsidy programme to encourage employers to hire youth with little work experience, and is reducing employers' social security contribution rates (OECD, 2021[41]). It is expanding both the number and quality of apprenticeships, and is reshaping all levels of education to focus more on the skills and experience needed in the workplace. Cross-country experience suggests that youth employment support based on profiles of individuals needs and that integrates multiple interventions – such as temporary employment subsidies, focused training and work experience – is most beneficial. Building on Greece's reduced social contributions for employers hiring young workers and reforms to improve the flexibility of work hours, Greece could waive employers' social contributions when employing part-time young workers with minimal past work experience, so reducing their employment costs and giving those workers an entry into work experience.

The share of women in formal employment continues to lag other OECD countries, despite recent years' progress. Towards improving gender equality, Greece has been reforming laws and other formal arrangements, and was recognised as one of twelve countries out of 190 assessed to provide legally equivalent status to men and women (World Bank, 2022[42]). However, outcomes fall short, as demonstrated for example in Greece's low ranking in the European Commission's Gender Equality Index (Kingma and Vandeplas, 2022[43]).

The COVID crisis demonstrated that remote and flexible work, with adequate protection for workers, can support both workers' productivity and their well-being (OECD, 2020[44]; Criscuolo et al., 2021[45]). More flexible work arrangements enable workers who are older or with family or study commitments to remain engaged in the workforce (OECD, 2020[46]). It is part of the policy mix to reduce urban pollution and congestion (discussed in Chapter 2) (IEA, 2021[47]; ITF, 2021[48]). Greece is among the OECD countries with the least flexible working time regulations, even after accounting for some flexibility introduced by reforms in mid-2021. In Greece teleworking was used among the least of any European country prior to the COVID crisis. Telework became an important and valued practice for many workers during the COVID crisis and legal reforms have made it more accessible (Ioannou, Sidiropoulos and Agnantopoulos, 2020[49]). Still, many workplaces returned to pre-pandemic arrangements once the COVID restrictions were lifted. Supporting social partners to negotiate worktime, telework and other aspects of flexible working arrangements alongside wages can improve the quality of the work agreements, participation and productivity (OECD, 2019[50]).

Seeking to promote more flexible and equitable work arrangements, in 2021 Greece increased minimum employer-paid paternity leave for private sector workers from 2 to 14 days. This is an important step to more equitable childcare and household management arrangements and greater involvement of fathers in their children's upbringing. Experience across countries shows that it can help bring more women into higher skilled, more productive and better-paid employment (Huerta et al., 2013[51]). Reducing the gender gap in parental leave would help address one of the constraints to women entering work, while raising Greece's job market dynamism (Causa et al., 2022[52]) and contributing to raising fertility rates. A challenge in many countries has been to ensure that men make use of this leave. Other OECD countries have found that this requires a mix of compulsion and incentives (Box 1.9). Greece is shifting to an electronic platform to complete the administrative arrangements for this leave. It may wish to monitor take-up and, if take-up falls short of expectations, introduce such incentives and requirements. As a next step, it may join other countries such as Spain in aligning both parents' leave entitlements.

Box 1.9. Encouraging fathers to take up paid paternity leave

Many OECD countries that have introduced paternity leave have found that often fathers do not take it up, and traditional gender roles continue. For example, Japan has introduced over 52 weeks of relatively well-paid paternity leave, but take-up is low. To improve take-up, countries have introduced a mix of incentives and compulsion. Portugal requires fathers to take five days' leave, and then provides paid paternity leave only if the father takes it after the mother has used her maternity leave. Italy, Finland and Germany among other countries provide bonuses if fathers use all of their allocated leave. Iceland's policy is most extensive, with three months' well-paid leave provided to the mother and father separately and three months available for both to take jointly.

Source: (Huerta et al., 2013[51]); (Adema, Clarke and Thévenon, 2016[53]); (OECD, 2021[54]).

Greece's workforce includes a significant share of foreign-born workers but their many skills are often underused (Figure 1.24 Panel B). COVID-period disruptions to these workers' arrivals are likely to have temporarily contributed to the recent labour shortages. International worker flows have resumed as restrictions are lifted. Refugees from the war in Ukraine have made a minor contribution to Greece's workforce. Greece can better integrate the talents of immigrant workers. Most immigrant workers, even many who are well-educated, work in low-skilled jobs in Greece (OECD, 2020[55]). Large shares of immigrants, especially youth and the Greece-born children of immigrants, are unemployed or fully out of the workforce.

Joining European and other international initiatives to recognise foreign qualifications and experience would help employers better benefit from foreign-born workers' skills. Because of the need for constitutional change, it will be some years before Greece can join the Lisbon convention on the Recognition of Qualifications. In the meantime, it can take other actions, such as reducing its higher fees or translation requirements for the recognition of foreign qualifications to align with other European countries (OECD, 2017[56]). For those unable to document their qualifications, Greece can develop fair and transparent alternative assessment methods. Finally, the large share of foreign-born workers in Greece from countries with very weak professional and vocational education highlights the potential benefits from ensuring these workers can access Greece's reforming vocational education.

Past OECD recommendations on educational policies and actions taken

Past recommendations	Actions taken
Progressively move the teacher workforce onto longer-term contracts that support and reward performance and avoid the rigidity of the existing permanent contracts.	After more than a decade of frozen hiring, the Ministry of Education has hired 24,700 teachers to replace retired teachers and reduce the dependency on substitute teachers on temporary contracts. Law (4692/2020) for internal and external assessment at the school level has been introduced. Over 98% of public schools participated in the first stage of internal assessment in the 2021-22 school year. In addition, law 4823/2021 has been passed to increase autonomy for school units and strengthen the role of teachers and school leadership. Individual teacher assessments are being rolled out during the 2022-23 school year for the first time.
Roll-out compulsory pre-school for 4 year olds and expand access for younger children.	Minimum age of attendance in pre-primary education has been reduced from five to four years of age and has been made compulsory. Since the 2021-22 school year, the two-year pre-school education is implemented in all 332 municipalities of the country with over 177 000 enrolled students.
Provide broader management autonomy to tertiary education institutions.	Law 4957/2022 on higher education law foresees the establishment of a university council for each institution, increased autonomy and forms of internal control, and internal assessment and review. As of December 2022, six universities have completed the electoral process for internal members. All other universities are on track to undertake the electoral process in 2023 onwards.
Encourage tertiary education institutions to develop courses adapted to mature-age students' professional needs and practical circumstances. Improve quality assessment and certification of adult learning courses.	Law 4957/2022 on higher education foresees strengthening universities' ties with society among others through the establishment of Lifelong Learning Centres for mature students and provision of services to society. The law also includes provisions for implementation of industrial PhDs, bachelor degree programmes of applied sciences and technologies, and short duration study programmes . The Ministry of Education and the Ministry of Development have introduced legislation providing a framework for university spin-offs and university start-up incubators.

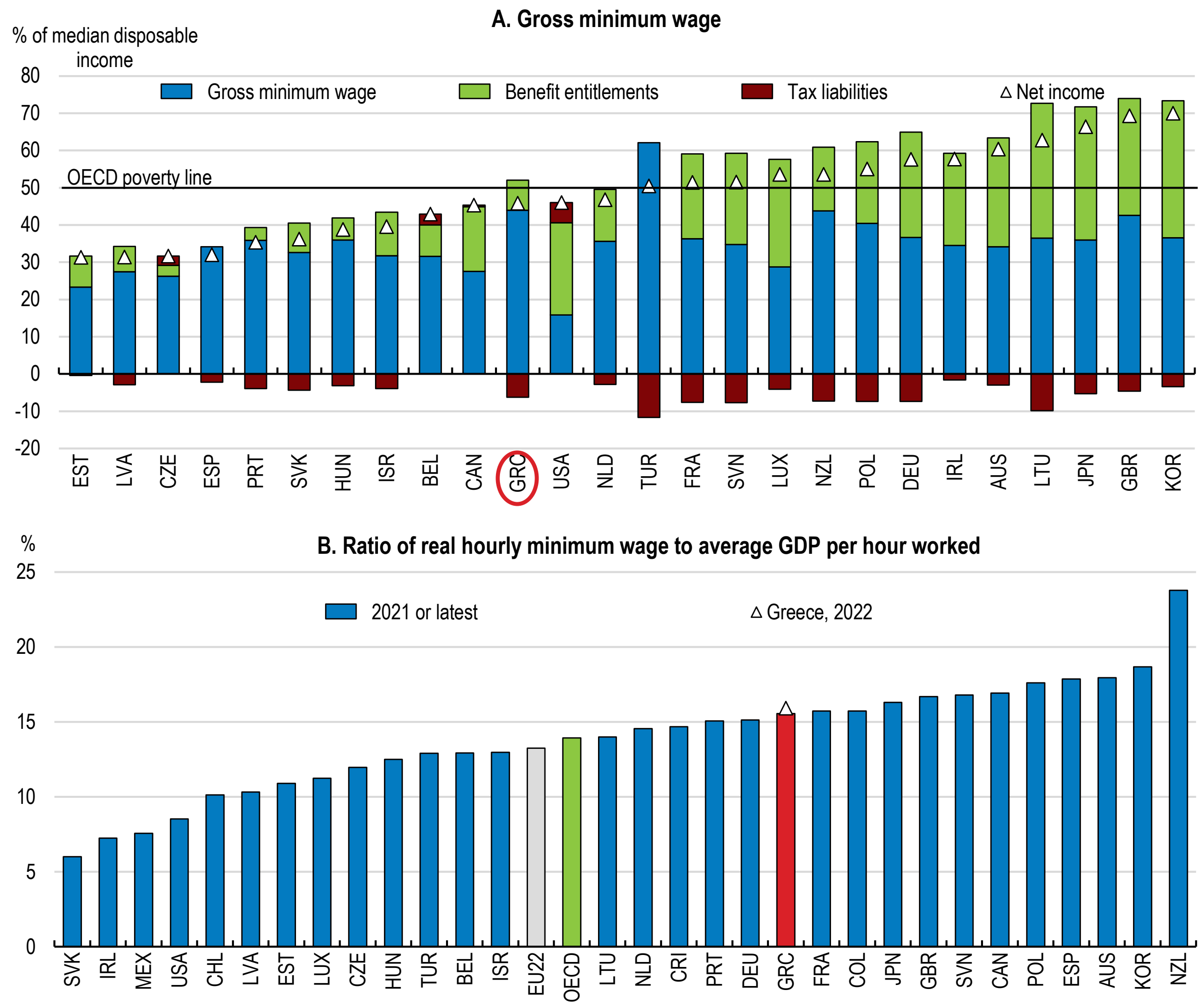
Ensuring wages reward skills and support competitiveness

The government's nearly 10% increase in the minimum wage in the first 5 months of 2022 are leading broader increases in wages in Greece. These were the first increases since January 2019, and compare with consumer prices' 6.1% increase over this period. Historical experience, the large share of workers paid the minimum wage and the narrow range of wages in Greece suggests that these increases will also raise wages at higher wage rates. Greece's minimum wage is high relative to the average and median private sector wage rate, and to output per hour worked (Figure 1.25). The OECD TaxBenefit calculator shows that Greece's minimum wage is the second closest to the poverty line across OECD countries. Other countries lift very low-income households above the poverty line through direct, targeted income support (Figure 1.25, Panel A). The lack of this support from Greece's social protection system makes a high minimum wage central to limiting poverty, despite this measure not supporting households without employment income, and at the cost of reduced competitiveness and reduced formal employment of lower-skill or lower-productivity workers (OECD, 2018[57]).

Protecting the independence of the minimum wage experts committee, and requiring the government to explain differences between its determinations and the committee's recommendations would strengthen the minimum wage setting process, as recommended in previous Economic Surveys of Greece. Sustaining job and income growth into the longer term requires ensuring the minimum wage provides a safety floor for workers with weak bargaining power. A more integrated approach to social policy would better protect low-income households' welfare through economic shocks and better balance well-being with opportunities to earn an income through employment. This would include well-targeted and temporary income support or in-work benefits, rather than relying on increases in the minimum wage

Wages have started to rise, after over a decade when they fell or were stagnant, led by wage rates of workers with skills in high demand, such as ICT or construction. Wage adjustments have been rarer for other workers. The limited nominal wage growth of recent years has contributed to improving Greece's competitiveness during a period when labour productivity has not grown. Effective wage setting processes can support productivity growth, which in turn enables workers' incomes to rise sustainably. For civil servants, the government has undertaken to not make any adjustment to wage rates in 2023, despite these rates having changed little since the cuts of the early 2010s, and rising consumer prices and private sector wages. Instead it is introducing performance-related bonuses and suspending the social solidarity income tax surcharge for civil servants. For private sector employees, it has made some legal reforms to support firm-level agreements and is increasing the resources of the workplace mediator. But new agreements remain rare. Given the large number of very small workplaces, a framework of sectoral collective agreements coordinated across sectors and with flexibility for firms to adjust conditions, could improve wage setting processes in Greece, as discussed in the 2020 Economic Survey of Greece (OECD, 2020[16]; OECD, 2019[50]). Strengthening the activities of the mediator, nurturing constructive worker and employer representation, and developing forums for social partners to collaboratively negotiate working conditions, would help workplaces adopt these agreements.

Figure 1.25. Greece's minimum wage is high relative to the median wage and productivity



Note: Panel B: OECD and EU22 averages are unweighted averages. The EU22 average excludes Austria, Denmark, Finland, Italy, Sweden. The OECD average also excludes Iceland, Norway and Switzerland.

Source: Calculation based on data from OECD (2022), OECD Employment and Labour Market Statistics (database), OECD Productivity (database) and OECD Analytical (database).

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Past OECD recommendations on labour market policies and actions taken

Past recommendations	Actions taken
Reduce social insurance contribution rates, especially at low incomes, while aligning taxation across employment types.	Social contribution rates have been progressively cut.
Increase Guaranteed Minimum Income transfers, taper them more gradually as beneficiaries' earn more and introduce in-work benefits for low-wage workers.	Guaranteed minimum income allocation temporarily raised as part of response to surging energy prices.
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.	Digitalisation enabled proactive responses to the COVID crisis and to meet demand for services in areas with insufficient counsellors. Positions for 540 counsellors have been advertised. Relevant action not identified to develop link between the public employment service and private agencies.
Develop a voucher system that allows jobseekers to select their preferred intermediary for active labour market policies, including private-sector employment services.	A voucher system was established in 2022.
Strengthen the capacity of wage negotiation mediators to support workplaces in adopting sectoral collective agreements. Strengthen the integrity and access to detailed labour force data, to inform wage negotiations and sectoral collective agreement extensions. Ensure firms in financial distress can apply the opt-out clauses from sectoral collective agreement in a timely manner.	OMED hired 9 new mediators/arbitrators in early 2022, bringing the total to 28 (16 mediators and 12 arbitrators). Legal reforms established "MEKY" as a unit of experts at the Ministry of Labour and Social Affairs, to improve quality, reliability and relevance of data to strengthen and inform wage negotiations and sectoral collective bargaining, and to allow firms in financial distress to adjust work agreements.
Appoint the minimum wage experts committee members through an apolitical process for fixed, staggered terms, and require the government to explain differences between its decisions and the committee's recommendations. Consider introducing a sub-minimum wage linked to experience rather than to age.	Relevant action not identified. Relevant action not identified. A cut in employers' social security contributions and subsidies for hiring younger workers were introduced.

Reforming the public employment service to better activate and match jobseekers

Restructuring the public employment services and adult skill training are important steps to raising participation and improving employers' access to needed skills. Many of those who are actively seeking work do not, or are not eligible to, register with the public employment service, DYPA, while many of those registered with DYPA appear to be not immediately available or seeking work. Over 1 million Greeks were registered at DYPA in early 2022, little changed from a decade earlier, while the number of unemployed identified in the labour force survey fell by more than half to 600 000 (Figure 1.4, Panel A) (OECD, 2018[58]). The higher number registered with DYPA than who are assessed to be unemployed reflects large numbers who are not actively seeking and available to work. Few of those who are registered are young, despite the many youth who are neither in work nor full-time education.

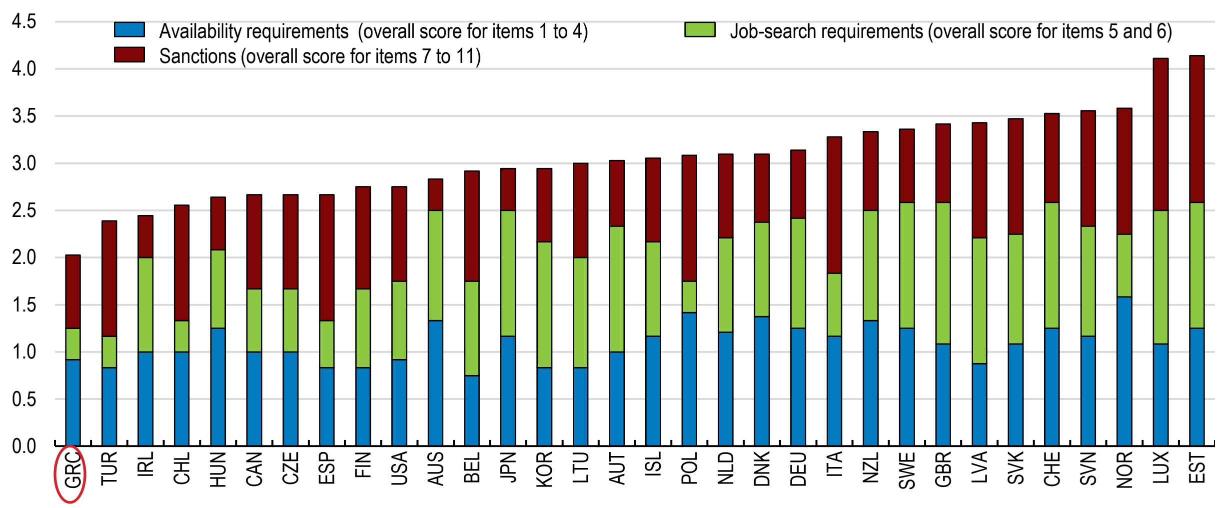
The large numbers registered with DYPA stretch counsellors' ability to match jobseekers with openings or relevant training, despite counsellors' solid skills and the recent boost to DYPA's capabilities through digitalisation and new recruits (OECD, Forthcoming[59]). Incentives to register with DYPA are raised by unemployment benefits that are relatively close to the net minimum wage and not linked to prior earnings, substantial non-monetary benefits such as generous utility bill and public transport discounts, and the availability of seasonal or informal income to supplement the benefits. Meanwhile, the costs of remaining registered, such as obligations to actively search for jobs or undergo training, or the progressive loss of benefits over time, are limited (Figure 1.26). The recently introduced guaranteed minimum income's requirement that recipients register with DYPA adds to these pressures.

The government is taking steps to strengthen DYPA. It is improving the service's performance, by investing in DYPA's staffing and digitalisation. These investments demonstrated their effectiveness during the COVID crisis, when DYPA was able to provide support remotely and service regions where needs grew above staff capacity. In mid-2022, it passed legislation that provides the general guidelines of a new mutual obligations framework, requiring the registered unemployed to work with counsellors to create individual career action plans, disqualifies for 2 years job seekers who have rejected more than three job offers, targets some social benefits, and provides additional incentives for the long-term unemployed to search for work. To improve incentives, those who take up work will be able to maintain 50% of their unemployment benefits. These welcome reforms are building block for Greece shifting from unemployment support dominated by passive income or employment subsidies to active programmes.

Fully implementing DYPA's improved legislative framework will require substantial shifts in resources and practices. For example, the new individualised action programmes and following up and enforcing sanctions in a proactive and proportionate way will require substantially boosting counsellors' capacity. Systematically following up with mandatory meetings with councillors or requiring meaningful job search would be central to implementing a mutual obligation framework (Figure 1.26) (OECD, Forthcoming[59]). The capacity of targeted training programmes will also require expanding, given many jobseekers' skill needs. For young jobseekers, cross-country experience suggests such a tailored approach integrating multiple interventions is more likely to support youth employment than, for example, wage or employment subsidies alone (Kluve et al., 2016[40]).

Figure 1.26. Greece can require jobseekers to be more active in their search

Strictness of activation requirements for first-tier unemployment benefits, scores from 1 (least strict) to 5 (most strict), 2022



Note: Index components are as follows: Availability requirements includes 4 items (availability during ALMP participation, demands on occupational mobility, demands on geographical mobility, other valid reasons for refusing job offers). Job-search requirements includes 2 items (frequency of monitoring, documentation of job-search activities). Sanctions includes 5 items (sanctions for voluntary unemployment, for refusing job offers, for repeated refusals of job offers, for failures to participate in counselling or ALMPs, and for repeated failures to participate in counselling or ALMPs). Values reflect the situation on 23 June 2022.
Source: OECD database on activation requirements, https://www.oecd.org/social/strictness-benefit-eligibility.htm.

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Making access to unemployment or other social benefits conditional on following the action plan would help strengthen Greece's future mutual obligation framework. This would complement the long-delayed implementation of the guaranteed minimum income's activation, training and social support pillars. Shifting non-monetary unemployment benefits, such as energy bill subsidies, into means-tested income support, rather than being provided to those registered as unemployed regardless of their resources, would better target those benefits while improving the motivation of those who register with DYPA.

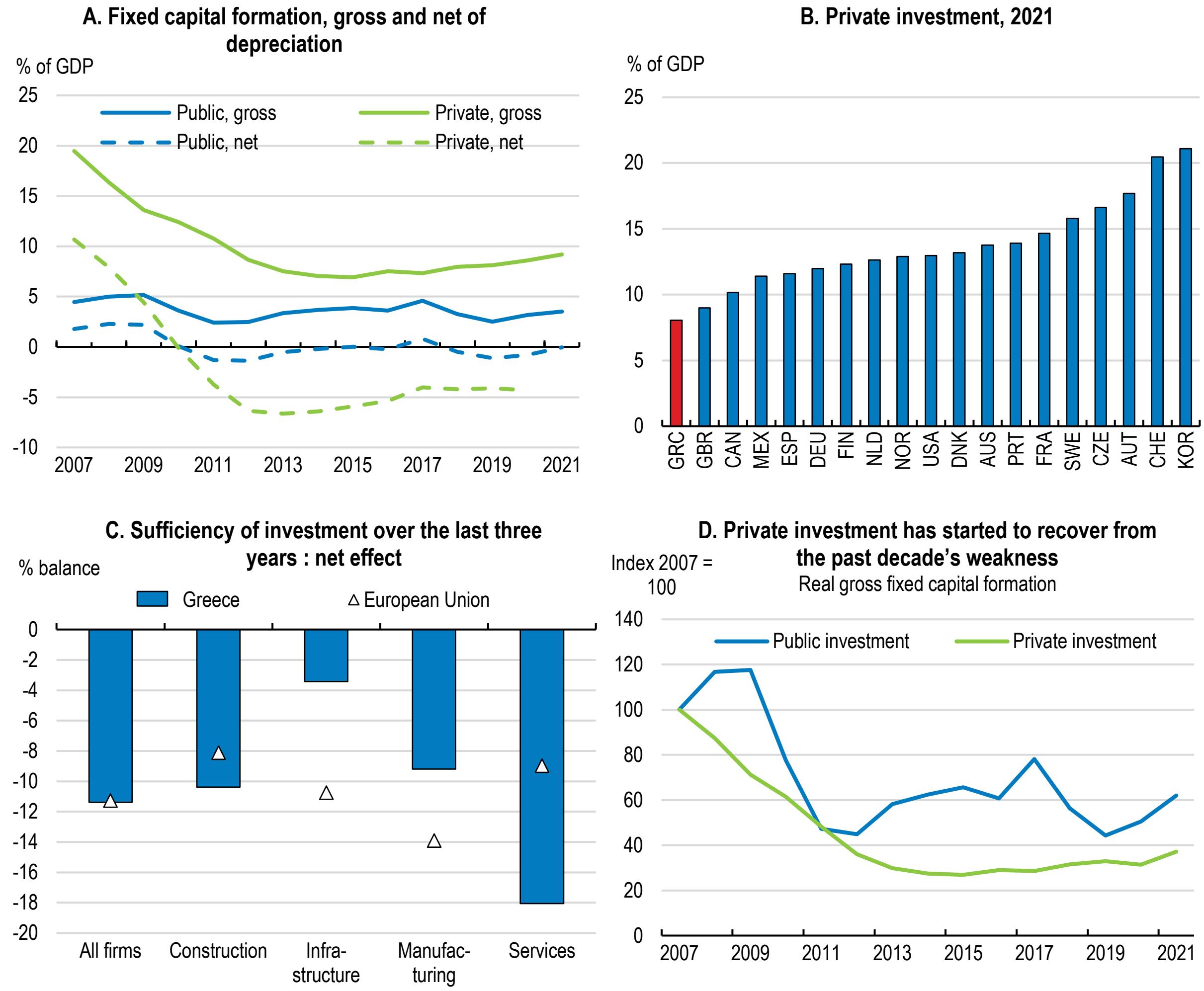
Past OECD recommendations on social protection policies and actions taken

Past recommendations	Actions taken
Boost policies to support families, prioritising expanded access to quality care for children and the elderly. Develop in-home support for elderly care. Reallocate the EUR 2 000 birth grant to ongoing family and care support policies.	Access to child and elderly care is being expanded. The programme "Reconciliation of Family and Professional Life" with a budget of EUR 280 million provided care and accommodation to children of more than 150 000 beneficiaries over 2021-2022. Complementary funding of EUR 10 million is provided to Municipal Centres of Creative Occupation of Children to facilitate participation in the programme. The "Help at Home" programme with an annual budget of EUR 60 million provides assistance to elderly and persons with disabilities with low income or living alone and was made permanent in 2020. A study has been conducted for the development of a strategy for the reform of social care services for the elderly, aiming to enhance accessibility, quality, and effectiveness of long-term care, under the technical assistance of the European Commission's D.G. Reform. The study identified basic elements that need to be considered by the Ministry Labour and Social Affairs to reform long-term care services for the elderly in Greece.
Depending on epidemiological developments, extend the new short-time work scheme to provide temporary support for incomes and employment in sectors suffering drops in demand.	Short-time work scheme extended through additional confinement periods.
Align equivalence scales across social transfer programmes by raising the Guaranteed Minimum Income equivalence factor applied to children. Ensure that Guaranteed Minimum Income programme participants are required to actively engage in active labour market programmes and to accept jobs.	Equivalence scales have not been aligned. For example, GMI and Housing benefit have different equivalence scales. A project for professional opportunity programmes has been approved by EC and will be implemented for approx. 7% of the unemployed beneficiaries registered for the GMI. Scheduled proposal targets an extra 10% of the GMI beneficiaries. Initiatives will be accompanied by an in-depth monitoring process regarding the responsiveness of the beneficiaries and a penalty system in case of non-compliance with the 3rd pillar obligations.

Boosting private investment to seize emerging opportunities

Raising private investment will be essential to raise productive capacity and seize emerging opportunities. Private investment in Greece has been weaker than in other OECD countries (Figure 1.27, Panel B), and is particularly weak among small firms and service sector enterprises, the backbone of Greece's economy (discussed in previous Economic Surveys of Greece (OECD, 2020[16]; 2018[39])). Investment has been insufficient to maintain the existing stock of machinery, equipment and buildings (Figure 1.27, Panel A). If sustained reforms and investment are to follow the Greece 2.0 Recovery and Resilience Plan, annual investment in the 2020s and 2030s would be almost double the amounts of the 2010s, lifting investment in Greece to the level of other OECD countries relative to GDP (Figure 1.12, Panel A). The green economy transition will require modest but sustained additional investments. Simulations prepared for this Survey suggest the shift to renewable energy would require investing between 0.8% and 1% of GDP each year, while the shift to a net zero emission transport system would require investing 0.1% of GDP more annually than currently planned (discussed in Chapter 2). Delaying these green economy investments would make little difference to the total investment needs, but would shift investments from the 2020s into the 2030s and 2040s. Greece's digitalisation goals will also require private firms to invest substantially in equipment, software, training and their organisations.

Figure 1.27. Raising private investment is crucial for a sustained recovery



Note: Panel A: Net fixed capital formation corresponds to gross fixed capital formation after deducting consumption of fixed capital. Panel B: Private investment is obtained here by imputed housing investment to the total private investment. Panel C: Percentage % balance between the share of enterprises that answered their investment over the previous three years was "too much" and less those that answered that it was "too little" to the question "Looking back at your investment over the last three years, was it too much, too little, or about the right amount to ensure the success of your business going forward?". Panel D: Volumes are computed from value data deflated by the total gross fixed capital formation deflator.

Source: Calculations based on data from OECD Economic Outlook (database); European Investment Bank (2022), EIB Investment Survey.

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Yet, firms' willingness to invest is low. Larger shares of firms in Greece than elsewhere in Europe believe they have invested excessively or adequately in recent years and fewer expect to increase investment (Figure 1.27, Panel C). This reflects the scale of Greece's economic crisis in the early 2000s, with fewer firms than in many other OECD countries reporting that they are operating at maximum capacity, even if many expect future demand to increase (European Investment Bank, 2021[60]). An incipient recovery in private investment, temporarily slowed by the COVID crisis, may be emerging. Investment has risen in recent years in several areas that can support productivity, such as software and research and development, although these areas make up small shares of the overall capital stock.

Reviving the supply of finance for investment

Access to finance is a far greater barrier to private firms' investment plans in Greece than in other OECD countries, due primarily to limited finance from banks, especially for SMEs, and few alternative sources of finance. The government's loan guarantees, introduced as part of the COVID response package, led to a temporary increase in lending to SMEs (OECD, 2022[61]) (Figure 1.28). Almost two-thirds of firms in Greece report access to finance is a problem of medium or high importance, compared with about half of firms across the euro area, although the share improved in the first months of 2022. High interest and other borrowing costs, together with limited supply of finance, have discouraged many smaller firms from seeking finance. This is despite higher levels of profitability and lower levels of vulnerability to shocks than in many other countries (European Investment Bank, 2021[60]). Greece's larger firms can access finance through their established relationships with banks and financial markets, albeit at higher financing costs than in other markets in the European Union.

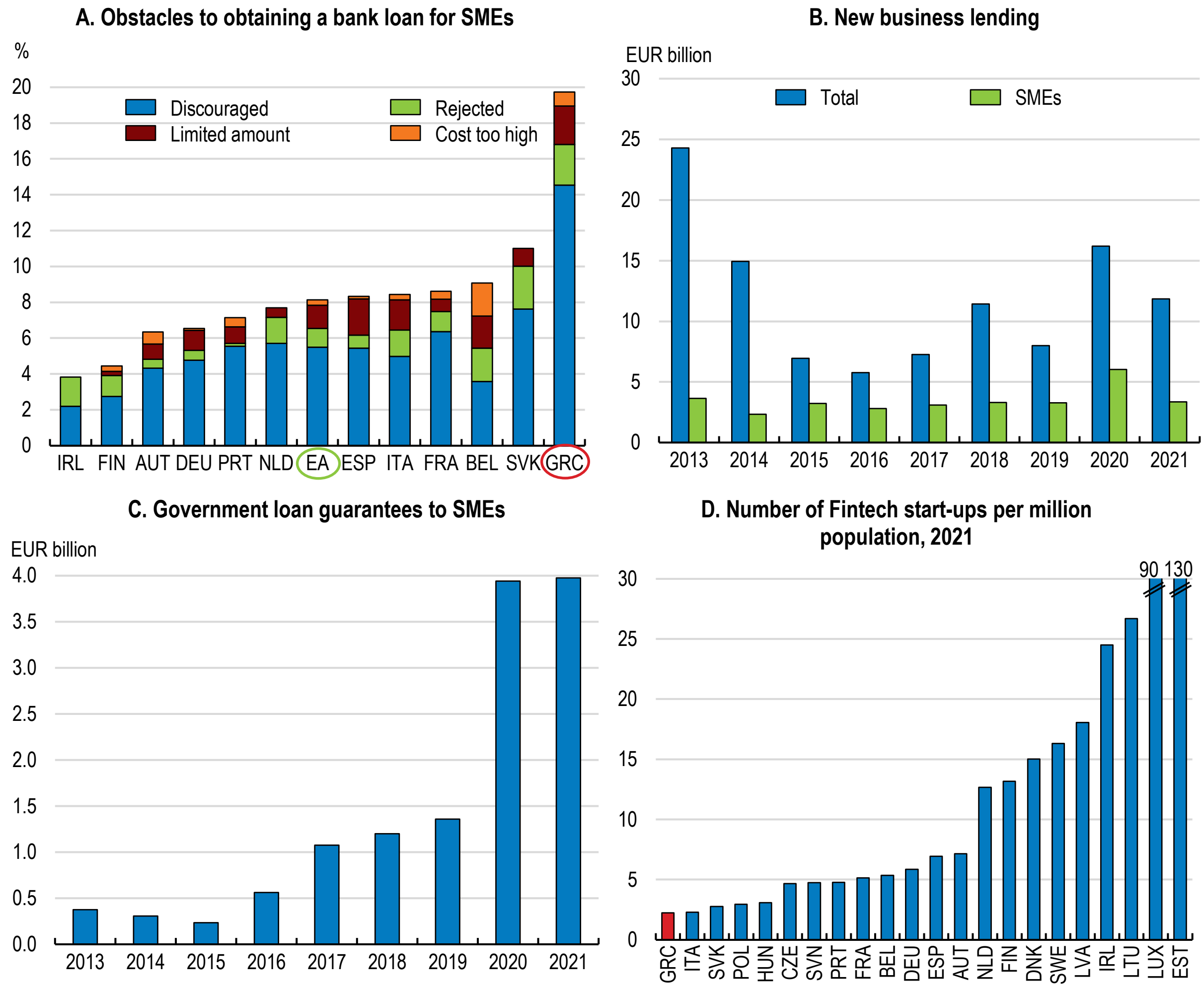
On-lending NextGenerationEU loans to private investors

To support financing for private investment, the government is on-lending to private investors the EUR 12.7 billion of credits (in 2018 values) it is eligible to receive from the EU Recovery and Resilience Facility. The on-lending strategy seeks to provide timely financing at below-market costs to address Greece's large private investment gap, without requiring direct contributions from public finances. The ambitious scheme requires loans be for new investments that are flagged as green, digital, or that support either exports, research and innovation, or mergers and acquisitions. The investments are funded by one of three channels:

1. The main domestic private banks, for investments by firms of all sizes. The Recovery Funds can cover up to half of the investment costs, the private investor at least 20% and the bank the remainder. The banks assess the viability of each loan application, an auditor assesses whether the project is eligible for Recovery and Resilience Fund (RRF) support, with the amount of support depending on the extent the investment project supports the RRF green economy or digitalisation objectives.
2. The European financial institutions, mainly for significant investments by medium and larger corporations. The government has entered a EUR 5 billion (2.6% of 2022 GDP) agreement with the European Investment Bank and EUR 0.5 billion with the European Bank for Reconstruction and Development (EBRD). The Recovery and Resilience Funds can cover up to half the investment costs, and include an additional contribution of up to EUR 0.5 billion from the EBRD.
3. A fund to finance up to 70% of equity investments in potentially high-growth or digitally innovative smaller and medium sized enterprises, overseen by the state-owned Hellenic Development and Investment Bank.

There are challenges to achieving these goals and ensuring that the funds are disbursed in a timely manner, add to rather than substitute for other sources of financing, and are for projects with commercially prudent risks. The increase to financing for private investment is substantial. Fully disbursing the RRF loans will provide at least EUR 6.4 billion (3.4% of 2022 GDP) per year between 2022 and 2026, targeting only new private investment projects that are in the RRF priority areas. This is over 50% of total average annual private investment between 2017 and 2019. Meanwhile the national budget will bear the risk of non-payment by private investors for up to 50% of the financing provided from the RRF as the risk is shared according to the financers' contributions. To minimise implementation, fiscal and financial sector risks, it will be important to carefully monitor the programme, to ensure its safeguards are fully implemented, and to proactively adjust the strategy should weaknesses emerge, even if such adjustments mean that not all of the credits available are disbursed.

Figure 1.28. Larger firms can access credit at a premium, while smaller firms have little access and few alternatives to banks



Note: Panel A: Survey conducted over October 2021 to March 2022. Financing obstacles are defined as the total of the percentages of enterprises reporting (i) loan applications that were rejected, (ii) loan applications for which only a limited amount was granted, (iii) loan applications that resulted in an offer that was declined by the enterprise because the borrowing costs were too high, and (iv) a decision not to apply for a loan for fear of rejection (discouraged borrowers). Panel B: As of June 2014, new loans no longer include restructured loans. Panel C: Outstanding balance guaranteed at the end of each year as referred in the Ministry of Finance - Public Debt's periodical editions (as regards Hellenic Development Bank HDB, ex ETEAN, only). Panel D: Based on search “FinTech” in the field “description keywords” in the Crunchbase.
Source: ECB Survey on the Access to Financing for SMEs; OECD (2023 forthcoming), Financing SMEs and Entrepreneurs: An OECD Scoreboard, 2023 Highlights; and Crunchbase (database), https://www.crunchbase.com, accessed on 17 March 2022.

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Evaluating the financial sustainability, additivity and economic effects of the on-lending programme, drawing on the approach outlined in (OECD, 2017[62]), would help improve its design and effectiveness and provide a precedent for other public policy programmes. Greece has not evaluated its public credit guarantee schemes in the last decade. Going forward, the ambitions of the RRF on-lending could be strengthened by following the principles developed by the OECD and G20 for the management of government guaranteed lending to private enterprises. Legally, the credits funded through the on-lending by the government of RRF loans have an equal priority in repayment to other creditors’ contributions. Close, reactive monitoring of the programme and forthright pursuit of the government’s repayment, as the safeguards to the Recovery and Resilience Fund loans require, can provide some protection for public finances and the programme’s goals.

Developing alternative sources of finance

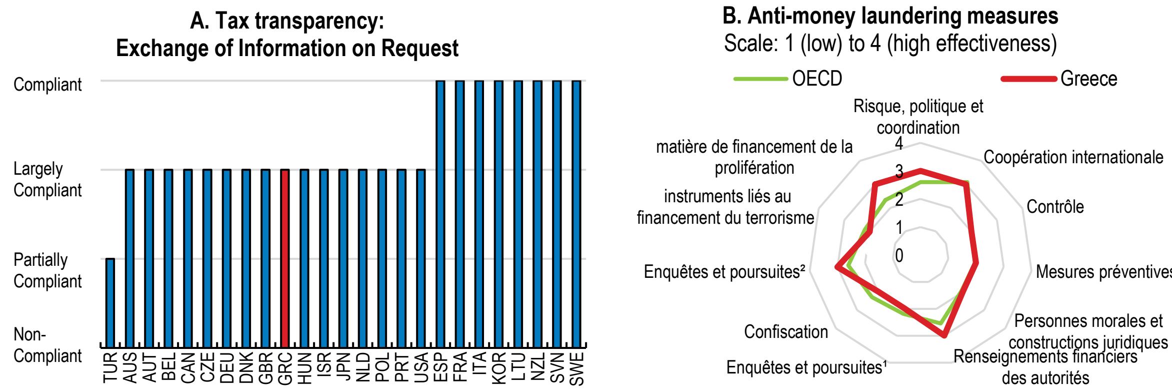
Alternative sources of finance, including FinTech, play limited roles in Greece, and their development can support greater entrepreneurship and reduce Greek investors' high reliance on traditional banks (Figure 1.27, Panel D). Developing marketplace lending, that is, online lending intermediated by FinTech platforms, can improve efficiency and increase competition and diversification in lending, by providing small and medium-sized companies (SMEs) an alternative to conventional bank lending. It can particularly contribute when the traditional banking sector is impaired (Kaousar Nassr and Wehinger, 2015[63]). Traditional banks are not well suited to financing new and riskier digital start-ups with innovative business models but little collateral (OECD, 2015[64]). While developing an ecosystem of alternative sources may take some years, it is also likely to be some time before Greece's banks are able to support new or fast-growing investors, as they continue restoring their financial health and reorganising their operations. The relative transparency and integrity of Greece's financial system support its potential as a hub for such financial innovation (Figure 1.28).

The Bank of Greece has developed a regulatory sandbox where FinTech firms can test innovative approaches. A number of OECD countries have found these to be fruitful stimulators of innovation and more business-friendly innovation. The Bank of Greece's plan to review the first stages of the sandbox and adapt and extend the programme merits pursuing. To date, interest from firms has focused on payment services, rather than developing alternative sources of lending or other financial services that are under-serviced in Greece such as property insurance (discussed in Chapter 2). Adapting the regulatory sandbox to attract a wider range of FinTech operators would support the sector's development in Greece.

Venture capital can be especially supportive to entrepreneurs without established relationships with banks, such as researchers looking to commercialise their innovations, an area which has been especially challenging in Greece. The government is expanding its support for venture capital funds, notably through on-lending of its Recovery and Resilience Facility credits. This injection of funds can deepen and develop the market in Greece. Strong, independent monitoring and accountability can support their performance and the efficiency of their governance and operations.

Regulators can help develop FinTech and alternative sources of finance in Greece by being proactive and by aligning their strategies. The Baltic countries have been especially successful in developing this sector, increasing their number of new FinTech start-ups by 70%. This was supported by comprehensive strategies, and cooperation with neighbouring jurisdictions to deepen their market size (Laidroo et al., 2022[65]; Swedbank, 2021[66]). Supportive domestic regulations can help Greece to both attract the wholesale funds for marketplace lending platforms, and to protect and give confidence to borrowers, especially in the early development of the platforms. Establishing transparency across FinTech platforms about SME borrowers and the platforms' performance improves FinTech markets' performance (OECD, 2022[67]). Policy makers can support this, for example by developing common Open Data platforms, as the Bank of England is developing (Bank of England, 2020[68]). Collaborating with regulators elsewhere in the European Union would help align Greece's markets with others, and can help Greece's regulators in this quickly evolving area.

Figure 1.29. The integrity of Greece's financial system supports financial innovation



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution¹" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing. "Financial sanctions against proliferation" refers to proliferation of weapons of mass destruction.
Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

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Bolstering the private sector's willingness to invest

Reviving firms' willingness to invest, innovate and grow is essential for Greece to seize the looming opportunities of digitalisation and the green economy transition. Greece's increased competitiveness, and the ongoing reform efforts to improve the business environment and access to finance are addressing long-standing barriers to private investment. Some indicators suggest Greece's private sector may be starting to become more dynamic. The share of fast-growth firms has risen in recent years, medium-sized firms are leading the growth in goods exports, and businesses' research spending is rising.

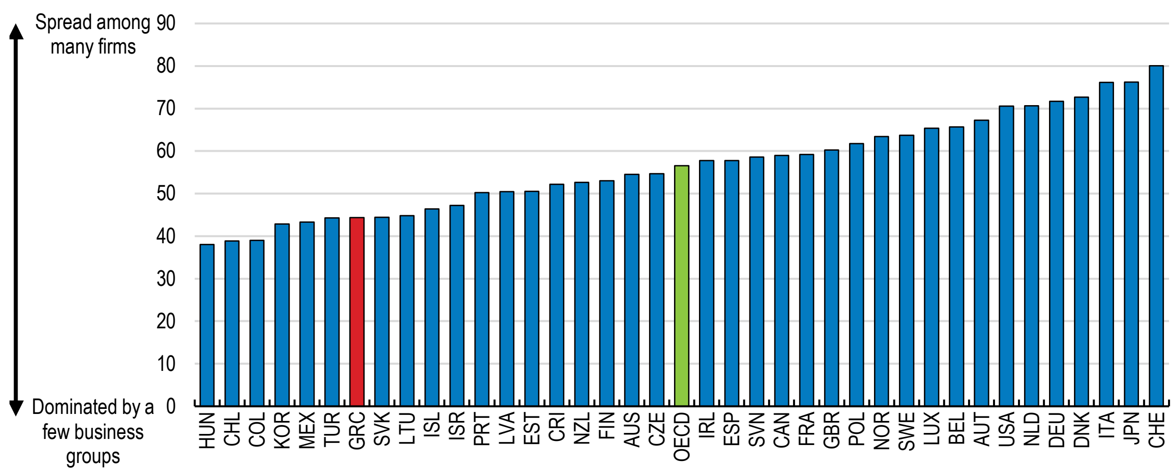
Nurturing such positive trends is essential for raising private investment. Much of the workforce and capital stock are trapped in low-productivity-low-growth firms. Weak business dynamism, with few new challengers entering markets, low productivity firms remaining in the market, and few workers who move to more productive firms, stifle willingness to invest and productivity growth (Figure 1.31). The productivity and adoption of digital technologies of small firms lag further behind larger firms than in other OECD countries (Kontolaimou, Korra and Skintzi, 2021[69]). A number of these firms have a legacy of defaulted loans, and restructuring these loans so as that they are again serviced will be key for these firms to again be able to access new finance (discussed above).

Improving the contestability of markets in Greece would foster greater firm dynamism and support productivity growth. Some markets are dominated by few suppliers (Figure 1.30), while in others there are many very small businesses but their investment is low and productivity stagnant. The Hellenic Competition Commission has recently made welcome inroads into its backlog of cases, has improved its staffing and organisational design and is making greater use of digital tools such as artificial intelligence to detect potential cases of collusion. Maintaining strong, independent and responsive competition authorities, such as by implementing the OECD Council Recommendations Council on Transparency and Procedural Fairness in Competition Law Enforcement (OECD, 2022[70]), can contribute to ensuring contestable markets and improving price competition.

Meanwhile, many consumer-focused sectors are dominated by very large numbers of small, low-growth firms, which lack the access to finance and management depth to invest and improve their competitiveness. The government, notably through its ‘Greece 2.0‘ Recovery and Resilience Plan, is encouraging Greece’s large number of very small firms to invest and grow, including through tax changes and other incentives for smaller firms to merge. In addition, reducing regulatory barriers in sectors where they remain high, notably in many professional services such as legal services, would reduce costs across the economy, as discussed in previous Economic Surveys of Greece (2018[39]; 2020[16]). Such reforms can complement other efforts underway to improve the judicial system, and merit being accompanied by monitoring safeguards so as to avoid and to respond to any unintended consequences of deregulation.

Figure 1.30. Few firms dominate many markets in Greece

Extent of market dominance, 0-100 (best), 2019



Source: World Economic Forum, The Global Competitiveness Index 4.0 2019 dataset, available at https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth.

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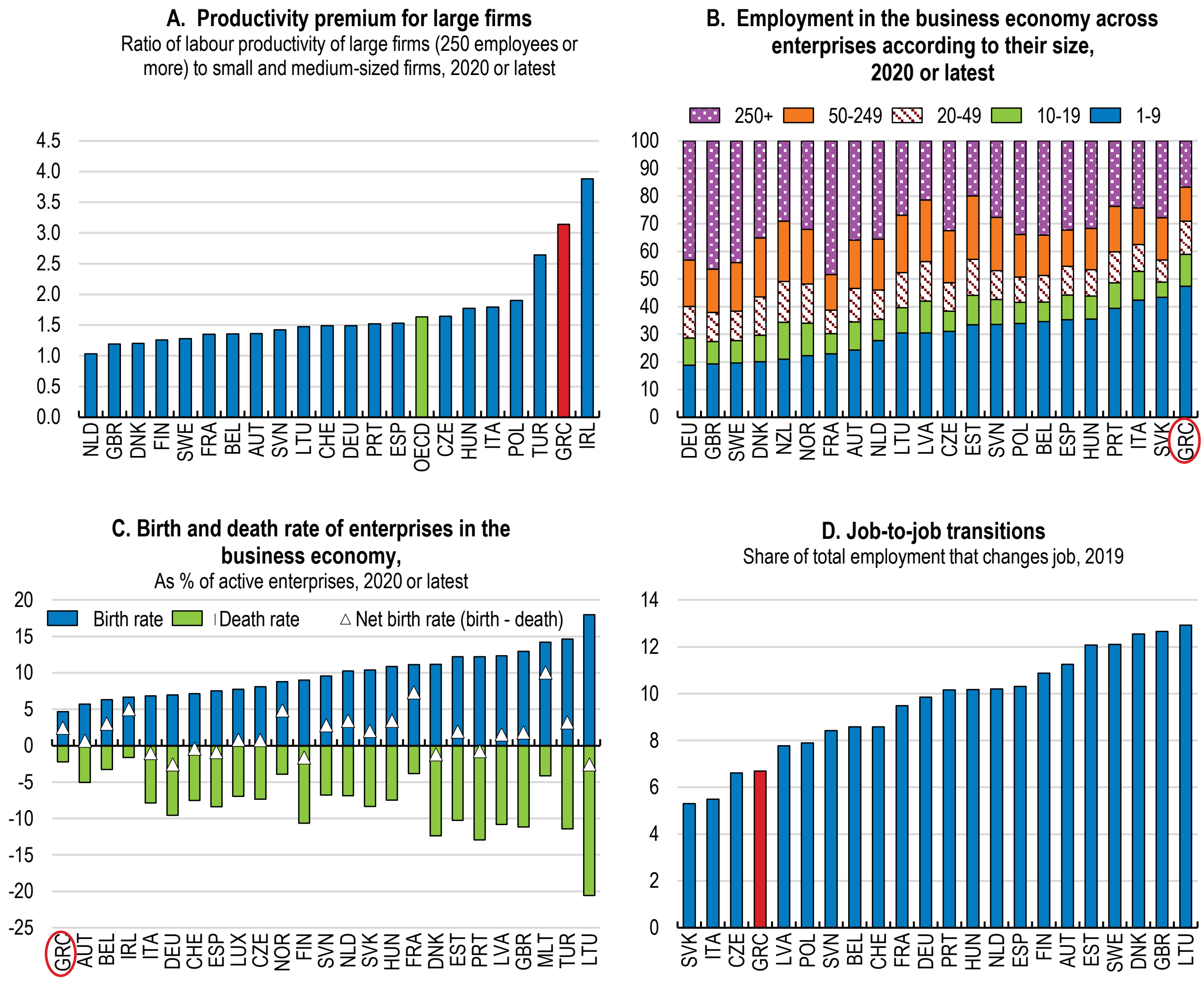
Reform efforts to reduce regulatory burdens and to improve the judicial system can help achieve large improvements in Greece’s business and investment environment (Figure 1.32). Greece has significantly upgraded its regulatory environment over the past decade, and in some areas regulatory burdens compare favourably with most other OECD countries, as discussed in the (2020[16]) Economic Survey of Greece. Insolvency has undergone major reforms that can improve the speed of resolving non-performing loans, raise the value of these assets for banks and loan servicing firms, and free the debtors from their bad debts faster. These reforms can also improve debt enforcement practices in Greece. Pivotal to their success are efforts to improve the legal system’s responsiveness. The time to resolve disputes is long and has lengthened for some subjects (European Commission, 2021[71]). Take-up of alternative dispute resolution is gradual, despite its lower costs and greater reactivity than the court system (OECD, 2020[16]). Some reforms to improve the justice system’s operations have been completed. Others have been delayed but are features of the Greece 2.0 Recovery and Resilience Plan and merit this prioritisation. These measures include simplifying and digitalising processes, providing greater certainty on the outcome of cases through developing pilot trials in civil courts and filtering the admissibility of legal remedies, and extending efforts to encourage the use of alternative dispute resolution. Measures also support better supervision and monitoring of the performance of the judicial system through better data collection and presentation.

Figure 1.31. Boosting business dynamism would raise investment demand and productivity



Note: Panel A: OECD unweighted average excludes Canada, Chile, Colombia, Costa Rica, Japan, Mexico, New Zealand, and the United States. Panel B: Categories are in number of employed persons.

Source: OECD Structural and Demographic Business Statistics (database); Eurostat; and OECD (2021), Labour market transitions across OECD countries: stylised facts, Annex A1.

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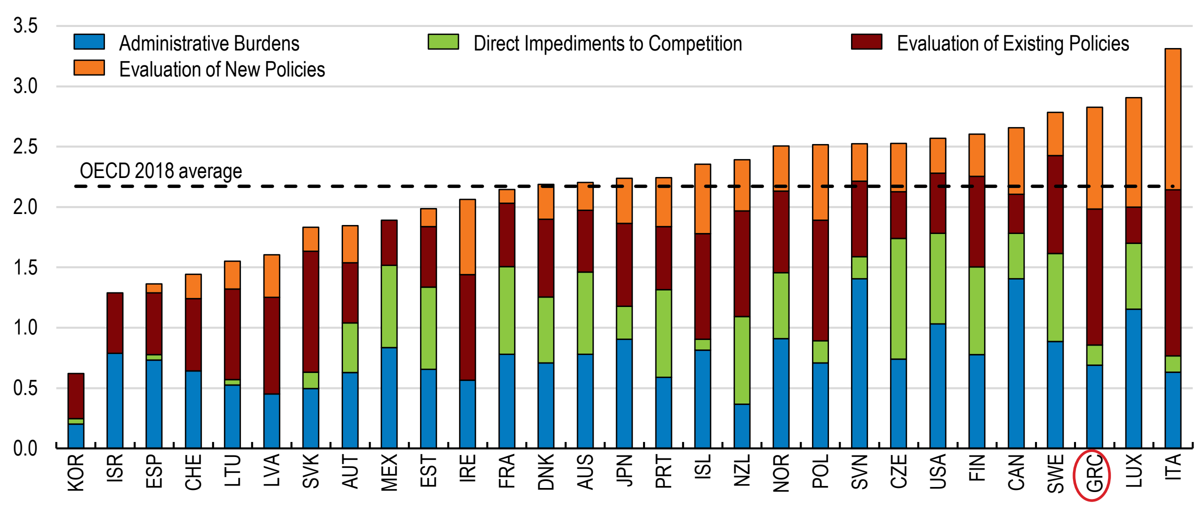
Well-designed regulations can pursue both well-being and environmental policy goals while cultivating a business environment that encourages productive private investments (Berestycki et al., 2022[72]). Making greater use of regulatory impact assessments, including during the ongoing codification of existing regulations, would improve regulatory quality. Greece 2.0 includes an ambitious programme to measure digitally administrative burdens and incorporate this information in a regulatory impact assessment framework. As part of these assessments, comparing alternative approaches to achieving policy objectives would help develop the focus on outcomes and performance. Once these reviews and codifications are complete, increasing Greece's regulatory certainty would support investment in the longer term. For example, environmental regulations that are certain, designed to achieve policy goals and support operators in a sector, are associated with higher levels of environment-related investment (Figure 1.32) (Berestycki and Dechezleprêtre, 2020[73]).

Past OECD recommendations on product market policies and actions taken

Past recommendations	Actions taken
Complete the land registry.	Cadastral mapping and the transition to the full establishment of the Hellenic Cadastre continued to progress. The collection of property rights has reached 84% of the total property rights of the country. It is expected that 60% of total property rights will be in operation or uploaded by end-April 2022. The ratification of the last 50% of forest maps will start in May 2022 and will be completed by July 2022. 9 cadastral offices (out of 17) and 38 branches (out of 75) have opened and the corresponding mortgage offices have been closed.
Swiftly implement the planned creation and privatisation of new competitors in the electricity market. Further promote competition in the gas supply sector.	Competition in the retail market electricity improved with 26 suppliers in 2020. The target model for the wholesale electricity market has applied since 1 November 2020.
Strengthen the Hellenic Competition Commission's advocacy work by allocating more resources to its work outside the area of law enforcement.	2022 legislation aims to support the competition authority's enforcement capacity, and to act against anti-competitive practices, taking into account the challenges of the digital economy and support parties' procedural rights.
Ease the remaining barriers to trade and investment that prevent Greece from expanding its exports, such as limitation on foreign equity participation in maritime services or airport regulations.	Relevant action not identified.
Promote a venture capital system with important direct links to university research and innovation to boost entrepreneurship.	Relevant action not identified.
Accelerate the codification of existing laws and regulations.	Work on the codification of labour legislation continues in close collaboration with the Central Codification Committee, with a view to finalise by October 2022. A first draft of the legislation for the modernisation of the institutional framework for state-owned enterprises, aiming also at the codification of the framework, has been prepared.

Figure 1.32. Reducing environmental regulations' administrative burdens and better evaluating new regulations would encourage greater investment

Design and Evaluation of Environmental Policies values, 0 (best) to 6 (worst), 2018



Source: (Berestycki and Dechezleprêtre, 2020[73]).

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Past OECD recommendations on environmental policies and actions taken

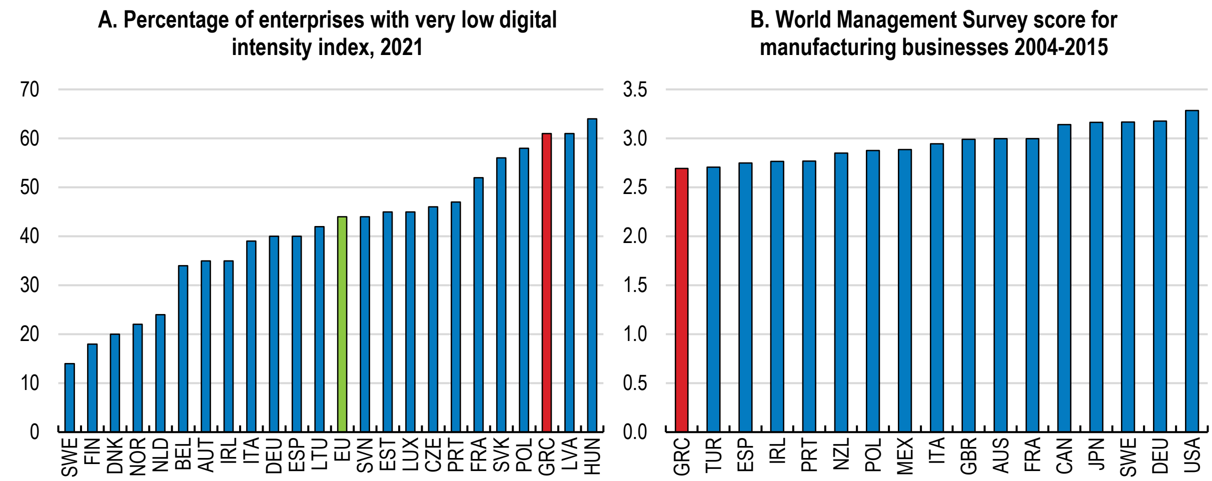
Past recommendations	Actions taken
Adopt and implement a national air pollution control programme and improve the air quality monitoring system.	Relevant action not identified.
Review tax variation across fuels and uses to provide a consistent carbon price signal.	The Tax Policy Directorate of the Ministry of Finance is expected to receive technical assistance from the EU DG REFORM within the second semester of 2022 on tax policy for the green transition and for socio-economic cohesion.
Extend separate collection of waste, and expand the use of "pay as you throw" systems. Enforce the landfill tax.	A new waste management law was enacted in 2021 to achieve higher recycling rates, enforce separate collection of metal, paper, glass and plastic and bio-waste by the end of 2022, extend the "Producer's responsibility" scheme, upgrade the operation of recycling sorting facilities and simplify the legislation around green points. Legislation is being drafted to establish a waste management regulator law.

Helping the private sector to seize the opportunities of digitalisation

Seizing the opportunities of digitalisation for firms to raise productivity, access new markets and develop new products requires investing in a mix of hard infrastructure, in software and in reformed organisational structures and skills. So far, firms in Greece have lagged other countries in digitalising their operations (Figure 1.33, Panel A) (Kontolaimou, Korra and Skintzi, 2021[69]). Infrastructure investments are providing part of the needed support to catch up. Nearly one-quarter of the 'Greece 2.0' Recovery and Resilience Plan is devoted to promoting digitalisation, for example by supporting the rollout of broadband connections. Besides these physical investments, having the right human capital in place is key (Criscuolo et al., 2021[74]; OECD, 2019[75]; Bender et al., 2018[76]). Investments in intangible capital, such as branding, product design, or management quality, are essential for using digital technologies. Generally in-house employees develop these intangible investments, highlighting the importance of having supportive management in place (Haskel and Westlake, 2018[77]).

Digitalising the private sector will require raising firms' managerial and digital skills (Corrado et al., 2021[78]). Due to the central role of managers within the firm, ranging from selecting and incentivising workers to organising the firm's operations, thin managerial skills can throttle digitalisation (Gal et al., 2019[79]; Syverson, 2011[80]; Calvino et al., 2022[81]). Cross-country studies suggest that management quality, for example in using advanced management practices, and digital skills are relatively scarce in Greece (Figure 1.33).The 2020 Economic Survey of Greece discusses how improving the educational system and supporting training and lifelong learning can increase digital skills (OECD, 2020[16]). Providing financial support and information campaigns would increase firms' willingness to invest in their managerial skills. Lack of awareness about the benefits of good management practices is one reason why this is not a priority in many firms (Bloom and Van Reenen, 2010[82]). Public subsidies of quality management training can be justified by the large productivity spillovers. Past management training programmes in Italy raised the productivity of participating firms by 30-50% over the following decade (Bianchi and Giorcelli, 2021[83]; Giorcelli, 2019[84]).

Figure 1.33. Better management and digital skills would support digitalisation



Source: Eurostat; and World Management Survey https://worldmanagementsurvey.org/.

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Past OECD recommendations on innovation policies and actions taken

Past recommendations	Actions taken
Enhance access to ICT networks and enable SMEs to engage in e-commerce to allow small firms to participate in global trade.	Measures in Greece 2.0 such as "Elevate Greece" initiative support the international exposure of the Greek startup innovation ecosystem. EU Structural Fund support for digital upgrade of SMEs such as "Digital Step", "Digital Leap", "e-Retail". Similar calls will follow in the new Programming Period 2021-2027.
Consolidate agencies responsible for research and innovation policies. Simplify access to R&D grants and tax incentives.	A new R&I governance system was adopted in view of the design and implementation of the Smart Specialization Strategy 2021-27 (S3, Law 4712/29-7-2020, Article 36) to ensure close cooperation of the General Secretariat for Research and Innovation, the General Secretariat for Industry, and the General Secretariat for Public Investments and NSRF. The Entrepreneurial Discovery Mechanism (EDM) has been adopted for the implementation of the Entrepreneurial Discovery Process at the national level. Goals include updating priorities and identifying focal points of competitive advantages. The Innovation Agency has been established as an auxiliary arm of the EDM to further improve the research and innovation capacity of the Greek companies, adaptation to the digital and green transition, and access to appropriate skills. Super-deduction of tax incentives for R&D expenses have increased from 130% to 200% and simplified procedures, such as use of external financial auditors, are in place. Tax incentives for Angel Investors in start-ups and tax exemptions for stock options have been introduced.
Strengthen the advisory and steering role of the General Secretariat for Research and Technology and the National Council of Research and Innovation.	The National Council for Research, Technology and Innovation (NCRTI) now advises the State on its national strategy for Research, Technological Development and Innovation. The composition of NCRTI was renewed in 2019 to balance representatives from academia and the business sector. The council meets twice a month.
Establish technology transfer offices in universities to strengthen university-industry collaboration.	Actions to establish Technology Transfer Offices in Universities and Public Research Centers is currently underway. In the year two April 2022, two calls for proposals worth EUR 8.5 million were launched to support developing technology transfer procedures and policy, and the operation of the existing Technology Transfer Offices.

Spatial planning to unblock investment in land

The incomplete land registry and uncertainty about planning rights, especially in forest and coastal zones, and regulatory barriers to merging and redeveloping land in developed areas weaken property rights, generate conflicts and stifle investments. Authority for spatial planning is fragmented across different levels of government and government agencies, resulting in instances of multiple and contradicting plans and responsibilities. This has slowed Greece adopting modern development models and attracting investors, for example for industrial parks or tourism developments (Marinakos and Pistikou, 2019[85]; Gourgiotis, Kyvelou and Lainas, 2021[86]). Weaknesses in spatial planning contribute to ongoing challenges in improving waste management, reducing urban air pollution, and controlling the development of built-up areas. Enforcement of land use plans is weak, especially with regard to past illegal construction, with many cases of retrospective authorisation of unplanned, illegal developments (OECD, 2020[87]).

Continuing progress with completing the cadastre, including ratifying forest maps, will facilitate future investments (European Commission, 2022[88]). Reforms included in the ‘Greece 2.0’ Recovery and Resilience Plan will create new spatial planning for marine and coastal areas and for renewable energy sources, tourism and aquaculture. This may provide for maritime spatial planning, support the green economy transition and protect areas from development (OECD, 2020[87]).

Differences in sequencing and long approval times delay completing and updating spatial plans. Several government levels, ranging from the central government to several sub-national administrations, are involved in actions ranging from setting up national strategic frameworks to defining land use plans at the local level. Clarifying and simplifying planning processes would speed up implementation of spatial plans and facilitate investments. To identify how to improve planning processes, Switzerland, for example, conducted a study on how reforming spatial planning regulations can reduce administrative costs for tourism businesses and support investment. Better integrating economic considerations into spatial planning would make land use plans more investment-friendly. Through responsive and transparent planning arrangements, Greece can improve how it uses developed land to reduce rapidly growing urban sprawl, accelerate the revitalisation of vacant properties, and improve the quality of life of its large cities such as Athens (OECD, 2020[87]).

Main policy findings and recommendations

MAIN POLICY FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Supporting a fiscally sustainable recovery	
Fiscal support helped the economy rebound. It is buffering surging energy prices for households and firms. Capacity use and supply constraints are rising. The rebound in activity and prices are buoying government revenues and reducing the deficit, although more slowly than earlier planned. The public debt ratio is declining, but Greece's sovereign rating remains sub-investment grade, widening spreads.	**Return the primary budget balance to surplus from 2023 and maintain thereafter a primary budget surplus of at least 1.5% to 2% of GDP.** Focus fiscal responses to high energy prices on well-targeted, temporary support for vulnerable households. Use any unplanned fiscal space to build fiscal reserves to cover contingent liabilities.
The Greece 2.0 reform and investment plan addresses many of the barriers to a growing, higher productivity, more digitalised and greener economy. Implementation is progressing well but challenges will grow. Substantial reforms and investments have been implemented in recent years but implementation has often lagged ambitions. Public investment, overwhelmingly financed by EU funds, has been highly centralised with limited roles for subnational authorities.	Swiftly implement public investment management reforms, prioritising staff training and developing centres of skills. Prepare to expand domestic funding of public investment once the current EU funding programmes complete.
Greece has improved its budget process, introduced spending reviews, and is developing performance budgeting. However, the share of growth-supporting spending is relatively low, crowded-out by pensions and public sector wages. Maintaining primary budget surpluses while supporting inclusiveness, investment and activity will require more effective public spending.	Develop line ministries' capacity to access, adapt and analyse performance information. Develop and present a medium-term perspective of spending trends and implications of policy measures.
Investment spending has regularly fallen well short of budget allocations. Despite the size of the public workforce and payroll being comparable to other OECD countries, skill gaps in key areas impede service delivery. Recent public investment management and public procurement reforms may help raise disbursement speed and investment quality, and further recent improvements in perceptions of corruption.	**Avoid growth in overall public servant numbers by promoting reallocation of staff to areas short of resources.** Strengthen public service recruitment, ensuring the process is responsive to different agencies' skill needs and the growing competition for skills. **Consolidate fragmented activities, such as public procurement, into dedicated agencies with deeper capacity.** Develop and require the use of framework agreements for common public procurements.
The public sector's digitalisation accelerated during the COVID period and is bringing tangible benefits to service delivery and public sector operations.	**Pursue digitalisation and administrative simplification across the public sector, prioritising work process reforms and raising skills.**
Public revenues are weighted to consumption taxes and social contributions rather than income taxes. Targeted cuts are reducing Greece's large labour income tax and contribution wedge. Taxes on capital and profits are among the lowest in the OECD. The shift to electronic transactions is raising tax compliance, but exemptions and discounts weaken the system's efficiency.	**Focus future income tax rate changes on maintaining revenues, while expanding the base of taxpayers.** Raise the effective tax rate on distributed capital profits while reducing the tax burden on middle-income earners. **Publish regular and comprehensive reviews of the costs and benefits of all tax expenditures and subsidies, highlighting those that apply to fossil fuels.** Introduce a default sunset clause on existing and future tax expenditures. Use enhanced digital capacities to improve tax compliance, prioritising the self-employed.
Raising employment and incomes	
Employment rates remain low, particularly for women and the young, despite strong job creation with the post-COVID recovery. Skill gaps are growing, while accelerating population ageing is reducing the working age population. Few activation requirements and substantial benefits contribute to large numbers registered with the public employment service, many of whom are little engaged in the job market, dragging the service's effectiveness. Foreign-born workers make a significant contribution to Greece's workforce, but their skills are under-used.	**Promote women's participation in paid employment including by encouraging workplaces to adopt more flexible work arrangements.** **Strengthen incentives for employers to hire young workers with limited experience, such as waiving employers' social security contributions for new hires.** Introduce incentives to ensure the new paid paternal leave is taken up. Encourage higher participation in the expanding facilities for quality, low-cost care for young children and elderly relatives. Implement ongoing reforms to the public employment service, developing mutual obligation requirements centred on tailored personal action plans. **Consider replacing non-monetary unemployment benefits provided to the registered unemployed with targeted income support.** Reduce the procedural barriers to recognising education and skills gained outside of Greece.

MAIN POLICY FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Investing in an enduring recovery	
Despite recent progress, private investment remains very low, reflecting scarce financing and low demand from investors. Banks have made large inroads into non-performing loans but the COVID crisis has created new non-performing exposures. Banks' capital, while within regulatory requirements, is low, weighing on new lending and weakening banks' ability to invest in improving their operations. Deferred tax credits make up a large share of banks' capital and discourage new private investments in the banks. The government's on-lending of NextGenerationEU loans to private investors via financial institutions can expand access to finance but brings implementation and fiscal risks. FinTech and other alternatives to bank financing are little developed. Low investment demand reflects low but improving business dynamism, especially the many very small firms with thin management capacity. This slows firms' pursuit of new opportunities in digitalisation and the green economy transition.	Swiftly complete the clearance of non-performing loans, including through the Hercules scheme. **Encourage banks to build their capital bases by increasing profits organically and by considering raising capital buffer requirements.** Closely monitor the disbursement and performance of Recovery and Resilience Faculty loans, be ready to slow disbursement or reallocate the funds to other projects in the case of mounting risks, and to protect the State's contribution in the case of loan defaults. Encourage the growth of non-bank financing by regulating to ensure transparency and information sharing about loan portfolios and platforms' performance. Expand and subsidise access to quality management training for small- and medium-sized business management, including to digitalise their business operations.
After a decade with prices growing at among the slowest rates across OECD countries, inflation has risen and broadened. In many markets, price competition is low due to weak contestability or many low-productivity operators. Entry barriers remain high in some key professions, such as legal services. The Hellenic Competition Commission is resolving its backlog of cases and has been strengthening its resources. However, important sectors of Greece's economy remain dominated by few actors. Regulatory burdens to operate in some key sectors and to re-develop land impede new entrants and raise costs.	Strengthen the Hellenic Competition Commission and other economic regulators to independently improve competition and effective market operation. **Lower entry barriers, prioritising professional services, and simplify land zoning rules.** Strengthen regulatory impact assessments, and require them to cover effects on competition. **Improve the legal system's effectiveness by including it in horizontal measures to review and simplify all administrative processes.** Pursue the collection and reporting of court performance indicators. Proceed with the codification of regulations and incorporate regulatory impact assessments into the process. Pursue national spatial plans, consolidating responsibility for planning into a national authority.
Achieving Greece's green economy transition	
Effective carbon prices differ substantially between fuels and users and are below levels expected to be necessary to reach net-zero. Higher carbon prices would disproportionately affect low-income households under current social support schemes.	**In the medium term, raise the price of emissions to at least the level of the EU Emission Trading Scheme, accompanied by temporary and targeted measures to help households adjust.**
The railway network is under-used and underdeveloped with low perceived efficiency. Infrastructure investments prioritise road transport.	**Raise investment in public transport informed by cost-and-benefit analyses.**
The government targets renovating the energy efficiency of 60 000 dwellings annually, and this pace will need to approximately double to renovate all insufficiently insulated buildings by 2050.	**Mandate a timeline of tightening minimum energy efficiency standards, to apply to all existing buildings by 2050.**
Public compensation for damages from extreme weather events imposes fiscal costs and provides little certainty. Insurance coverage is low and the sharing of risk between the public and private sectors is not transparent.	**Formalise risk-sharing, for example by making property insurance for extreme weather events compulsory for all buildings.**
The transition to a green economy will require many workers, firms and regions to adapt their existing activities to new opportunities.	**Increase access and quality of active labour market policies and training of workers across all sectors and regions affected by the green economy transition.**

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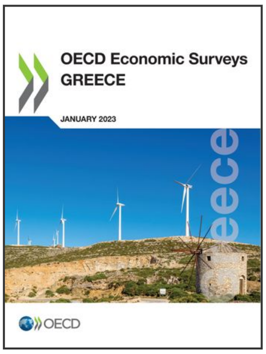

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