OECD Economic Surveys
GREECE
Executive Summary
January 2023

- **Greece's strong recovery is facing mounting external headwinds**
- **Further improving the effectiveness of public spending and revenue policies would foster public financial sustainability**
- **Sustaining employment and investment growth will require continuing progress on long-standing challenges**
- **Ambitious policies are key to staying the course to net-zero greenhouse gas emissions and preparing for a changing climate**

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BETTER POLICIES FOR BETTER LIVES

Key recommendations

Supporting a fiscally sustainable recovery

- Return the primary budget balance to surplus from 2023 and maintain a primary budget surplus thereafter of at least 1.5% to 2% of GDP.
- Avoid growth in overall public servant numbers by promoting reallocation of staff to areas short of resources.
- Consolidate fragmented activities, such as public procurement, into dedicated agencies with deeper capacity.
- Pursue digitalisation and administrative simplification across the public sector, prioritising work process reforms and raising skills.
- Focus future income tax rate changes on maintaining revenues, while expanding the base of taxpayers.
- Publish regular and comprehensive reviews of the costs and benefits of all tax expenditures and subsidies, highlighting those that apply to fossil fuels.

Raising employment and incomes

- 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 employer social security contributions for new hires.
- Consider replacing non-monetary unemployment benefits provided to the registered unemployed with targeted income support.
- Strengthen the use of collective bargaining at sector level as a key instrument for setting wages, focusing on support to social partners to apply sectoral agreements at workplace level.

Investing in an enduring recovery

- Encourage banks to build their capital bases by increasing profits organically and by considering raising capital buffer requirements.
- Lower entry barriers, prioritising professional services, and simplify land zoning rules.
- Improve the legal system's effectiveness by including it in horizontal measures to review and simplify all administrative processes.

Achieving Greece's green economy transition

- 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.
- Raise investment in public transport informed by cost-and-benefit analyses.
- Mandate a timeline of tightening minimum energy efficiency standards, to apply to all existing buildings by 2050.
- Formalise risk-sharing, for example by making property insurance for extreme weather events compulsory for all buildings
- Increase access and quality of active labour market policies and training of workers across all sectors and regions affected by the green economy transition.

Greece's strong recovery is facing mounting external headwinds

Greece's strong recovery from the COVID crisis, supported by continued reforms, is being slowed by surging energy prices and renewed global uncertainty, despite evolving fiscal support. Fully implementing the ambitious Recovery and Resilience Plan, managing supply and cost pressures while supporting fiscal health, and completing the restoration of banks' health are key to a sustained recovery.

Greece recovered strongly from the COVID crisis. Government support measures, reviving tourism and other exports, and improving consumer and investor confidence supported a rebound in demand, returning GDP to its pre-COVID crisis level. Continued reforms are improving the business environment, helping to attract rising foreign direct investment. These factors and the end of short-time work schemes contributed to strong jobs growth and reduced the unemployment rate to a 12-year low.

Surging energy prices, supply disruptions and renewed uncertainty, especially since Russia's war of aggression against Ukraine, is sharply slowing the recovery (Table 1). The war is directly affecting Greece's energy supply and costs. Its indirect effects are compressing spending and delaying investment and hiring. The government's accelerating disbursement of its ambitious Recovery and Resilience Plan and expanding fiscal support to energy consumers are buffering these shocks, and will help the recovery resume once the security situation and energy prices stabilise.

Table 1. The recovery is slowing

Annual rate of change unless noted[1]	2022	2023	2024
Gross domestic product	5.1	1.1	1.8
Private consumption	8.0	0.5	1.4
Gross fixed capital formation	8.5	2.5	5.0
Exports of goods and services	5.1	-0.5	2.9
Current account balance (% of GDP)	-7.1	-8.9	-8.8
Employment	6.2	1.1	0.3
Harmonised consumer price index	9.5	3.7	2.3
Fiscal balance (% of GDP)	-4.3	-2.6	-1.7
Primary budget balance (% of GDP)	-1.6	0.5	1.5
Government gross debt (Maastricht definition, % of GDP)	175.1	170.7	163.6

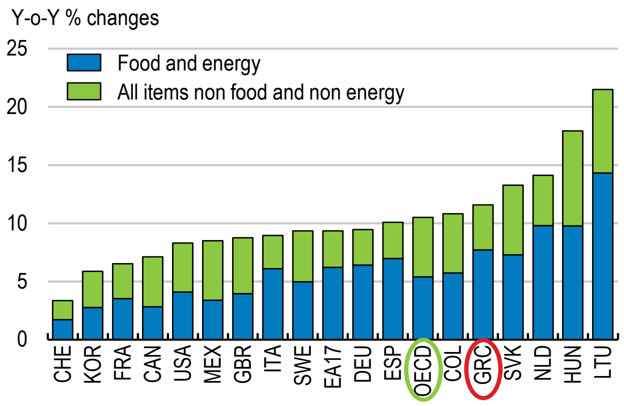
Source: OECD Economic Outlook 112 (database), updated.

The government has extended fiscal support, slowing the budget's return to surplus. It has expanded electricity and fuel price subsidies for households and businesses, and raised social transfers for low-income households. Recovering activity and surging prices have buoyed revenues. Public debt has fallen to its pre-COVID crisis ratio to GDP, and judicious debt management is containing financing costs. Still, the government's energy support measures have delayed the return of the primary budget surplus to its medium-term target of 1.5% to 2% of GDP, weighing on Greece quickly achieving an investment-grade rating.

After a decade when inflation has been among the slowest in the OECD, prices have accelerated as supply pressures broaden. Large increases in energy and food prices lifted inflation to the highest rates in over a quarter-century (Figure 1). Capacity use, input costs, wages and inflation expectations have all risen. In key markets, limited competition, or many small, low-margin-low-productivity firms add to price pressures.

Figure 1. Surging global energy and food prices have driven the rise in inflation

Contributions to headline inflation, 2022Q3



Source: OECD Price Statistics database.

Wages are rising after 12 years of little growth. The government increased the minimum wage by nearly 10% in the first half of 2022. Some groups of workers with in-demand skills, such as in ICT and construction workers, are experiencing stronger wage growth. Minimum wage increases provide a safety net for workers with weak bargaining power, but have become the primary source of wage adjustments for many workers paid above the minimum rate. Sectoral collective bargaining on wages and working conditions would better support incomes and productivity.

Bank lending to businesses has started to increase, a step towards financing the renewal of the private capital stock. Banks' health is improving. The Hercules securitisation scheme is enabling banks to shift much of their non-performing loans off their balance sheets faster than new bad loans are emerging. Banks' statutory capital, while meeting regulatory requirements, is being depleted through this process, and 58% consists of deferred tax credits. To expand access to finance, the government is on-lending its NextGenerationEU loans to selected domestic banks and European financial institutions to fund new private investments, although this brings implementation risks. Resolving the existing non-performing loans will release their debtors and assets securing the loans. Resolution often entails restructuring or insolvency processes, which the economy's recovery, the implementation of the new insolvency framework, and efforts to improve judicial processing times are supporting.

More effective public spending and revenue policies would foster fiscal sustainability and lasting growth

Public debt has declined relative to GDP but remains high. Its long maturity structure and interest rates fixed at low rates limit the immediate exposure to rising market rates. Future fiscal pressures include substantial investment needs and any realised contingent liabilities.

Greece's ambitious Recovery and Resilience Plan includes many reforms and investments to improve the public sector's performance and to sustain growth. Implementation has started in earnest, and dedicated bodies are steering progress. In recent years, low disbursement rates have held back public investment. Recent public investment management reforms can help to address challenges such as shortages of well-trained staff and fragmented responsibilities across many different bodies, such as for public procurement. New dedicated public project implementation and auditing bodies may further build spending quality and integrity, furthering recent improvements in perceptions of corruption.

Recent tax cuts have reduced the large labour income tax wedge. Compliance is generally improving, although significant shortfalls remain. For consumption and recurrent property taxes, coverage has broadened, while some rates have been cut. Income tax and social contribution rates are being cut. A significant number of targeted reliefs across different taxes have been introduced to support specific policy goals. Some of Greece's tax rates and receipts, such as those on distributed corporate profits, are now relatively low.

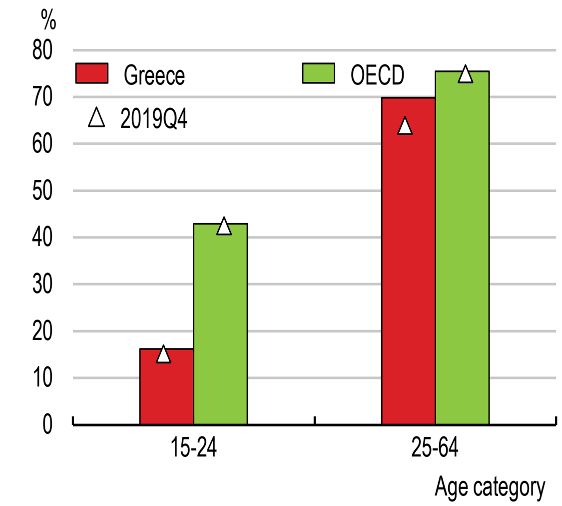
A sustained recovery will require tackling long-standing challenges

The share of adults in work lags other OECD countries, especially among women and youth, despite the post-COVID recovery in employment (Figure 2). Yet skill shortages are emerging and ageing is reducing the working age population. A legacy of low private investment weakens productivity and firms' ability to seize emerging opportunities in digitalisation and the green economy transition.

Recent strong employment growth must continue for Greece to achieve the employment rates of other OECD countries. The public employment service can help improve the match between jobseekers and employers. It is gaining capacity to tailor individual employment support programmes, which can particularly help younger jobseekers, but it is burdened by large numbers of registered jobseekers loosely connected to the workforce. The relatively low share of women in paid employment is gradually rising as work arrangements become less inflexible and workers have greater capacity to influence their work arrangements. The new paternal leave scheme can help improve the sharing of household tasks, if it is widely taken up. Foreign-born workers make a large contribution to Greece's labour force, but their skills are often unrecognised and underused.

Figure 2. Job growth has been strong but requires further efforts for youth

Employment rates 2022 Q2, % of population

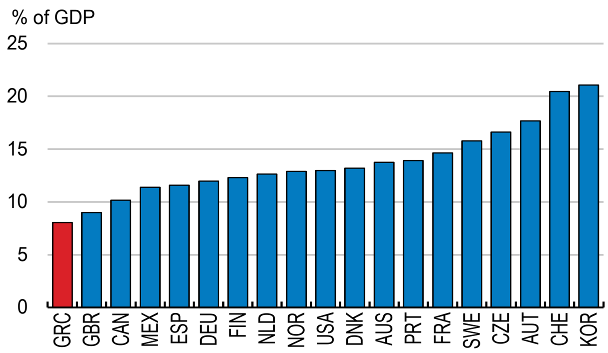


Source: OECD (2022), Short-term Labour Market Statistics database.

Private investment has been low for many years (Figure 3). Scarce finance, the high share of very small firms, and limited dynamism are contributing factors. Streamlining complex administrative processes as part of the public sector's digitalisation efforts is helping to improve the business environment. Digitalisation and the green economy transition are creating new investment opportunities. Rising foreign direct investment creates opportunities for domestic firms to raise their productivity and expand their markets. Expanding the role of medium-sized and larger firms, and deepening management capacity, will help Greece to seize these opportunities.

Figure 3. Strengthening private investment would support long-term growth

Private business investment, 2021



Source: Calculations based on datWa from OECD Economic Outlook.

Ambitious policies are key to reach net-zero greenhouse gas emissions and prepare for a warming climate

Greece's economy remains intensive in greenhouse gas emissions (GHG) mostly due to its fossil fuel use. Replacing fossil fuels with renewable energies would help achieve emission reduction goals (Figure 4). This will require energy consumers to invest and adapt.

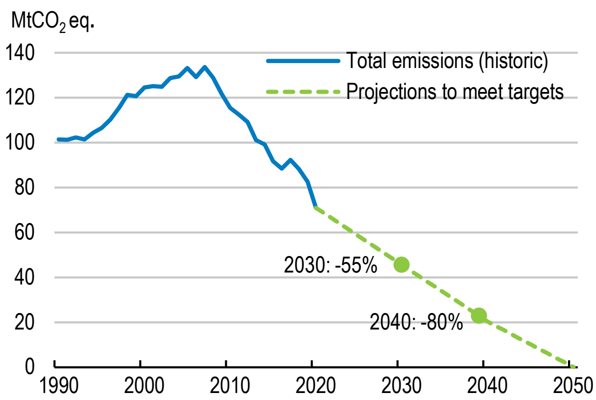
Transforming the energy system cost-effectively will be crucial given large investment needs and scarce fiscal space and finance. Making buildings more energy efficient promises large energy savings but requires sizeable upfront investments. Shifting transport off the road and onto Greece's underused railway system would reduce emissions at modest costs compared to replacing fossil-fuelled cars with low-emission alternatives. Strengthening carbon pricing, while protecting vulnerable groups, and gradually tightening regulations on the use of fossil fuels and energy efficiency can provide policy certainty. This will be crucial to guide investments and productive capacities through this extended transition.

Greece is particularly exposed to a warming climate with more extreme weather events, coastline erosion and less rain. Adapting to climate change will require adjusting public infrastructure and encouraging people to take protective measures. Publicising information about risks and protective measures, and boosting low property insurance coverage to clarify the sharing of risks between the public and private sectors, can reduce vulnerabilities and limit fiscal costs.

Climate policies can stoke opposition and risk being reversed. Responsibility for implementing climate policies is spread across many bodies, weakening implementation. Many workers and firms will need to adjust their skills and activities. Climate-related active labour market measures focus on workers in the most directly-exposed sectors.

Figure 4. Greece aims to achieve net zero emissions by 2050

Total greenhouse gas emissions in Greece



Note: GHG emissions include land use, land-use change and forestry. 2030 and 2040 reductions are relative to 1990 GHG emissions.
Source: OECD (2022), Environment: Air and climate database.

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Greece has rebounded well from the COVID-19 crisis, generating strong employment growth. Increasing investments and exports, government support measures, implementation of the Greece 2.0 Recovery and Resilience Package and the reforms of the past decade have been supporting the economy. However, headwinds from surging energy prices and uncertainty following Russia's war of aggression against Ukraine have slowed the recovery. Achieving and maintaining modest primary budget surpluses, better targeting energy support measures and maintaining public revenues while further broadening the tax base and improving its efficiency will further enhance Greece's prospects of achieving an investment-grade sovereign debt rating. Maintaining the reform momentum, completing the restoration of banks' health and continuing efforts to improve the business climate can ensure that a sustainable recovery continues over the longer term. This would also support Greece in further raising living standards as it adjusts to a changing climate and achieves net zero emissions. As elsewhere, the changing climate is already disrupting livelihoods and well-being in Greece. A well-chosen mix of carbon pricing, public infrastructure investments, raising buildings' energy efficiency and moving transport onto low-emission modes can achieve emission cuts cost-effectively, while making people better off with improved housing quality and mobility. Engaging all stakeholders, maintaining a consensus and supporting vulnerable households affected by the green economy transition will help ensure progress continues into the longer term.

SPECIAL FEATURE: THE GREEN ECONOMY TRANSITION

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