# OECD Economic Surveys
# GREECE

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# OECD Economic Surveys: Greece 2024

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# Foreword

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Greece were reviewed by the Committee on 1 October 2024. The draft report was then revised in light of the discussions and given final approval as the agreed report of the whole Committee on 16 October 2024.

The Secretariat's draft report was prepared for the Committee by Antoine Goujard and Timo Leidecker, under the supervision of Jens Arnold.

Statistical research assistance was provided by Mafalda Trincão and editorial support was provided by Robin Houng Lee.

The previous Survey of Greece was issued in January 2023.

Information about the latest as well as previous Surveys and more details about how Surveys are prepared is available at Economic surveys | OECD.

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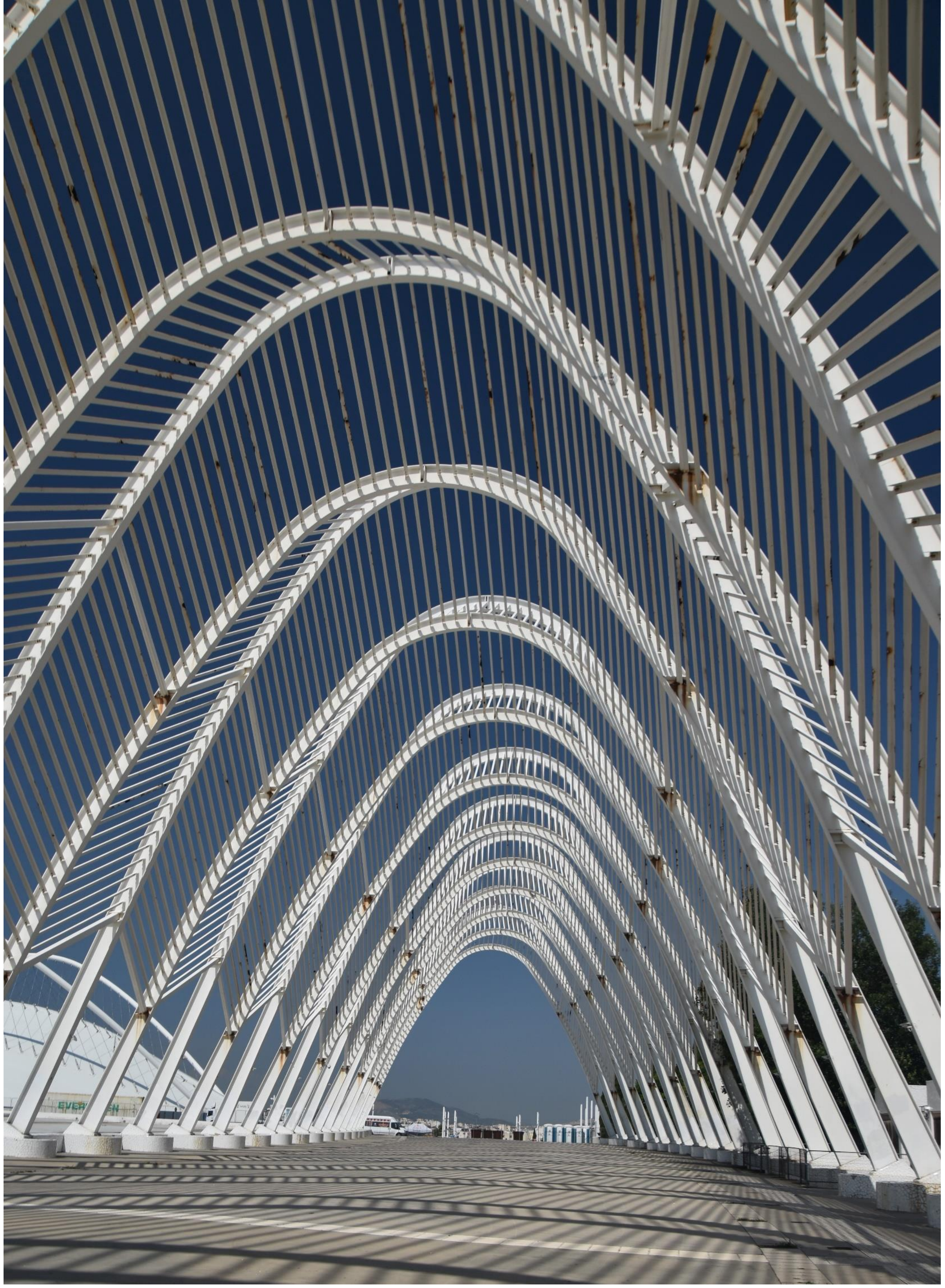
## Basic statistics of Greece, 2023

(Numbers in parentheses refer to the OECD average)

| | | | | | |
|---|---|---|---|---|---|
| **LAND, PEOPLE AND ELECTORAL CYCLE** | | | | | |
| Population (million) | 10.4 | | Population density per km² | 80.4 | (39.2) |
| Under 15 (%) | 13.6 | (17.0) | Life expectancy at birth (years, 2022) | 80.6 | (79.6) |
| Over 65 (%) | 23.1 | (18.3) | Men (2022) | 78.1 | (77.0) |
| International migrant stock (% of population, 2020) | 12.9 | (13.9) | Women (2022) | 83.3 | (82.4) |
| Latest 5-year average growth (%) | -0.7 | (0.4) | Latest general election | June | 2023 |
| **ECONOMY** | | | | | |
| Gross domestic product (GDP) | | | Value added shares (%) | | |
| In current prices (billion USD) | 243.5 | | Agriculture, forestry and fishing | 4.3 | (2.8) |
| In current prices (billion EUR) | 225.2 | | Industry including construction | 18.0 | (27.2) |
| Latest 5-year average real growth (%) | 1.8 | (1.7) | Services | 77.7 | (70.0) |
| Per capita (thousand USD PPP)* | 42.1 | (59.0) | | | |
| **GENERAL GOVERNMENT** Per cent of GDP | | | | | |
| Expenditure | 49.5 | (43.9) | Gross financial debt (OECD: 2022) | 180.7 | (109.5) |
| Revenue | 48.2 | (39.0) | Net financial debt (OECD: 2022) | 130.6 | (67.2) |
| **EXTERNAL ACCOUNTS** | | | | | |
| Exchange rate (EUR per USD) | 0.92 | | Main exports (% of total merchandise exports) | | |
| PPP exchange rate (USA = 1) | 0.52 | | Fuels | 32.4 | |
| In per cent of GDP | | | Metals | 10.2 | |
| Exports of goods and services | 43.7 | (31.2) | Chemicals | 9.5 | |
| Imports of goods and services | 48.4 | (31.2) | Main imports (% of total merchandise imports) | | |
| Current account balance | -6.5 | (-0.3) | Fuels | 27.8 | |
| Net international investment position | -142.4 | | Machinery and electronics | 13.5 | |
| | | | Chemicals | 11.6 | |
| **LABOUR MARKET, SKILLS AND INNOVATION** | | | | | |
| Employment rate (aged 15 and over, %) | 46.4 | (58.0) | Unemployment rate, Labour Force Survey (aged 15 and over, %) | 11.1 | (4.8) |
| Men | 54.9 | (65.5) | Youth (aged 15-24, %) | 26.7 | (10.6) |
| Women | 38.5 | (50.8) | Long-term unemployed (1 year and over, %) | 6.2 | (1.0) |
| Participation rate (aged 15 and over, %) | 52.2 | (60.9) | Tertiary educational attainment (aged 25-64, %) | 34.3 | (41.0) |
| Average hours worked per year | 1 897 | (1 742) | Gross domestic expenditure on R&D (% of GDP, 2021) | 1.5 | (2.9) |
| **ENVIRONMENT** | | | | | |
| Total primary energy supply per capita (toe) | 1.9 | (3.7) | $CO_2$ emissions from fuel combustion per capita (tonnes) | 4.6 | (7.6) |
| Renewables (%) | 18.7 | (12.5) | Water abstractions per capita (1 000 m³, 2022) | 1.0 | |
| Exposure to air pollution (more than 10 µg/m³ of PM 2.5, % of population, 2020) | 96.9 | (56.5) | Municipal waste per capita (tonnes, 2021, OECD: 2022) | 0.5 | (0.5) |
| **SOCIETY** | | | | | |
| Income inequality (Gini coefficient, 2021, OECD: latest available) | 0.312 | (0.315) | Education outcomes (PISA 2022 score) | | |
| Relative poverty rate (%, 2021, OECD: 2020) | 11.7 | (11.7) | Reading | 438 | (476) |
| Median disposable household income (thousand USD PPP, 2021, OECD: 2020) | 17.8 | (27.5) | Mathematics | 430 | (472) |
| Public and private spending (% of GDP) | | | Science | 441 | (485) |
| Health care | 8.4 | (9.2) | Share of women in parliament (%) | 23.0 | (32.8) |
| Pensions (2019) | 15.7 | (9.5) | Net official development assistance (% of GNI, 2022) | 0.2 | (0.4) |
| Education (public spending, % of GNI, 2021) | 3.1 | (4.4) | | | |

Notes: The year is indicated in parenthesis if it deviates from the year in the main title of this table. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries. *OECD aggregate refers to weighted average.
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.



# Executive summary

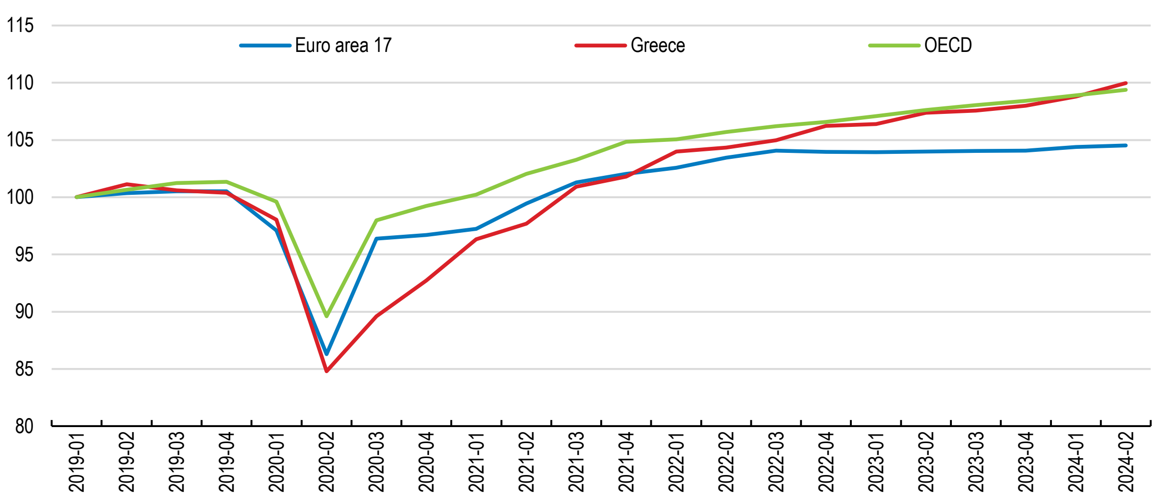
## The Greek economy has weathered recent crises well

Greece's economic growth outpaced the euro area average over the last three years (Figure 1). Support measures protected households and businesses against high inflation, while the public debt-to-GDP ratio declined significantly. Growing disbursements of the Recovery and Resilience Funds, gradual disinflation and continuous employment gains are expected to support growth from 2024 to 2026.

**Growth moderated from 5.7% in 2022 to 2.3% in 2023.** Inflationary pressures related to Russia's war of aggression against Ukraine have restrained private consumption. Tighter monetary policy has led to a deterioration in financing conditions, but EU Recovery and Resilience Funds, a sovereign credit rating upgrade and improving bank health have supported investment. Fiscal support, amounting to 1% of GDP in 2023 and being phased out in 2024, limited the impact of high inflation on households and firms. Headline inflation has declined from high levels but core inflation remains sticky. Wages have picked up in late 2023, supported by minimum wage hikes and growing labour shortages.

### Figure 1. GDP growth has been strong

Real GDP, Index, 2019Q1=100




Source: OECD Economic Outlook: Statistics and Projections (database).

StatLink https://stat.link/4ktqom

**Real income growth, a mild improvement in the global economic outlook and increasing disbursements of European funds will support growth over 2024-26** (Table 1). The recovery of external demand will allow exports to gain momentum. Further improving bank health and growing support from EU Recovery and Resilience Funds will allow credit and investment to pick up. Growing real wages and sustained employment gains will support household disposable incomes, consumption and investment. Unemployment is expected to decline further.

**Risks to economic activity are tilted to the downside.** Geopolitical tensions could intensify and lead to a rise in energy prices, which would weigh on domestic and global demand. Wage growth exceeding productivity gains could dent previous competitiveness gains and exports. Delays in the implementation of the Recovery and Resilience Plan would reduce investment.

### Table 1. GDP growth will pick up

Annual growth rates, %, unless specified

| | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|
| **Real GDP** | 2.3 | 2.3 | 2.2 | 2.5 |
| Private consumption | 1.8 | 1.8 | 1.2 | 1.4 |
| Government consumption | 2.6 | -2.4 | 1.0 | 0.9 |
| Investment | 6.6 | 7.5 | 8.8 | 9.5 |
| Exports | 1.9 | 0.7 | 3.3 | 2.7 |
| Imports | 0.9 | 6.0 | 3.3 | 2.8 |
| **Unemployment rate (% labour force)** | 11.1 | 10.1 | 9.4 | 8.9 |
| **Inflation (harmonised CPI)** | 4.2 | 3.0 | 2.7 | 2.1 |
| **Government balance (% GDP)** | -1.3 | -0.8 | -0.6 | -0.7 |
| **Government primary balance (% GDP)** | 1.5 | 2.4 | 2.4 | 2.4 |
| **Public debt (% GDP)** | 163.9 | 157.3 | 152.2 | 148.1 |

Source: OECD Economic Outlook 116.

## Strengthening public finances and public services

Public debt amounted to 163.9% of GDP in 2023 and significant primary surpluses over many years are needed to reduce it. With high investment needs, raising spending efficiency and reallocating spending are essential (Figure 2). Broadening tax bases, improving tax compliance and shifting the tax burden on labour towards other taxes would help.

**Public debt has declined but remains high.** Strong growth, steady primary surpluses and high inflation helped reduce the debt-to-GDP ratio from 209.4% in 2020 to 163.9% in 2023, using the Maastricht definition. A favourable debt structure is limiting the rise of debt servicing costs. With the phase-out of inflation-support measures and the pick-up in economic activity, public debt relative to GDP is projected to decline further by 2026.

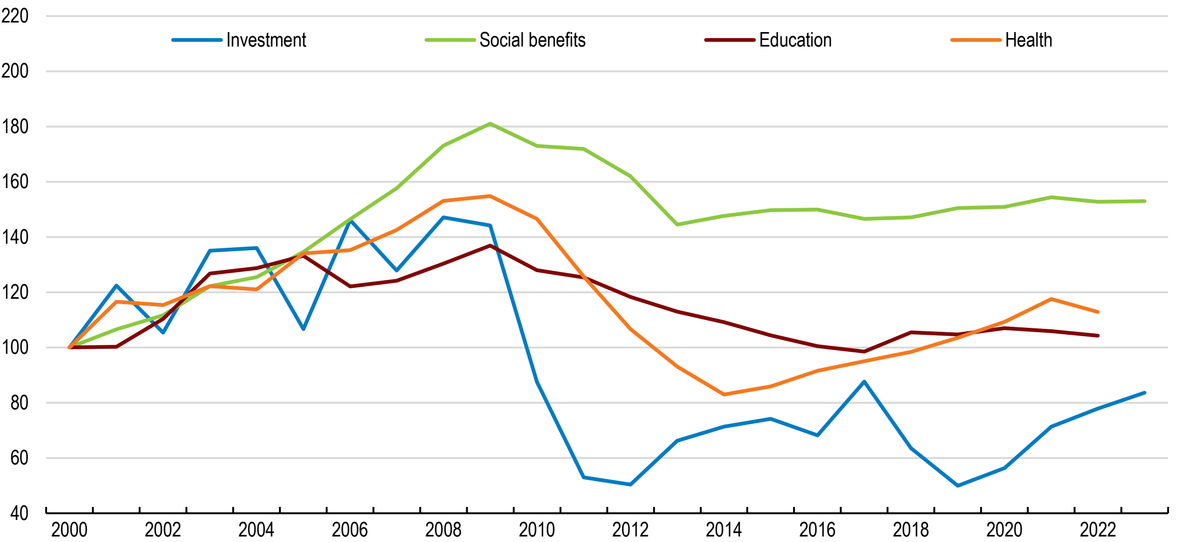
**Greece should prepare to expand domestic funding of public investment once the current EU funding programmes expire**. Reining in staff expenditures and maintaining efforts to contain pension expenditures would allow a gradual shift of public spending towards supporting growth and equity. Completing the ongoing efforts to build a comprehensive human resources management system and promote more mobility among civil servants can raise spending efficiency, supported by regular spending and public investment reviews. Reallocating spending towards training programmes and in-kind support for families would also improve support for unemployed workers and women, as well as labour market outcomes. Further strengthening whistleblower protection would reduce risks of corruption.

**Shifting the tax structure towards more growth-friendly taxes and broadening the tax base would support fiscal sustainability and help to reduce high tax rates.** Tax compliance is improving on the back of policies to foster electronic transactions, but significant shortfalls remain. Coverage of consumption and recurrent property taxes has been broadened, but many reduced VAT rates and exemptions remain. The sizeable tax expenditures should be evaluated regularly to phase out those that do not benefit low-income households or raise tax compliance costs. Moreover, strengthening the relatively low taxes on goods with negative health impacts could boost health outcomes, public revenues and equity.

**Recent tax and social security contribution cuts have reduced the labour income tax wedge.** To ease the tax burden on low-wage workers further and mitigate the impact of the ongoing labour-cost increases around the minimum wage, Greece could consider introducing in-work benefits and reducing employer social security contributions for low-wage workers.

**Figure 2. Public expenditures with a high growth-payoff have fallen behind**

Volume index, 2000=100[1]




1. Expenditures are deflated by the GDP deflator. Public education and health expenditures are defined according to the COFOG classification.
Source: OECD (2024), National Account database and OECD calculations.

StatLink https://stat.link/npb4s5

## Pursuing structural reforms will boost productivity and employment

Despite recent progress, productivity remains weak. The productivity gap between large firms and micro and small enterprises is large, with many of the latter failing to grow and adopt new technologies. Skill shortages have increased but the employment rate remains low, notably for women, youths and low-skilled workers.

**Lifting productivity and employment growth hinges on better skills and stronger investment** (Figure 3). Micro firms account for close to 47% of business employment, and their low investment and limited management skills have held back productivity gains. Continued reductions of still high regulatory barriers in some services sectors, better access to finance, and improving lifelong learning opportunities would support employment, business innovation and growth.

**The past few years have seen ambitious policy efforts to boost productivity and employment.** This includes cutting business and labour taxes, better incentives for investment and innovation, along with structural reforms in the labour market and reforms to the Public Employment Service (DYPA), apprenticeships and vocational training. The new insolvency framework and the ongoing reform of the judicial system are likely to shorten judicial processing times and accelerate the resolution of non-performing loans.

**The recent employment momentum must continue to achieve more inclusive growth**. The capacity of public employment services to tailor individual employment support programmes is improving, which can particularly help more vulnerable jobseekers. Still, large numbers of registered jobseekers with weak labour market attachment, scarce funding for Active Labour Market Policies (ALMPs), and inefficiencies in the unemployment benefit system hold back further progress. Increasing the number of specialised counsellors, redirecting funding towards ALMPs and further use of jobseeker profiling would improve job-search and training support. Ensuring the quality of training providers through regular evaluations, and improving quality assessments and certification of adult learning courses could support this. The unequal distribution of caretaking responsibilities limits labour market opportunities for women. Stepping up the provision of early childcare services would allow more women to join

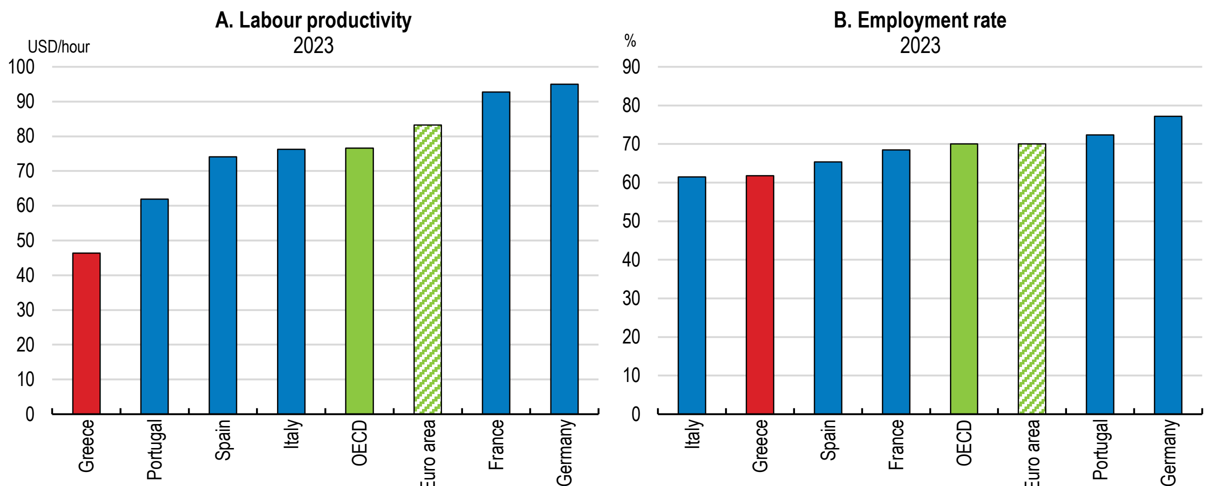
the labour market and could be financed by reducing birth grants. At the same time, establishing a national system for the Recognition of Prior Learning would help migrants labour market integration.

**Raising productivity requires more investments in human capital from an early age.** Educational outcomes and adult skills are lagging behind other OECD countries, according to the PISA and PIAAC Surveys. Mismatches between field of studies and labour market needs remain high, exacerbated by a low take-up of Vocational Education and Training (VET). Improving coordination among social partners and VET institutes about training content and more work-based learning will help to provide workers with the skills needed by firms. Enhancing counselling to guide students' study choices from an early age on would also better align skill development with labour market needs.

**Private investment, albeit increasing, has been low for many years**. Scarce financing, a high share of small firms, and limited firm turnover are contributing factors. The streamlining of complex administrative processes as part of the public sector's digitalisation efforts is welcome. Rising foreign direct investment inflows create opportunities for domestic firms to improve their productivity and expand their markets by developing local value chains. However, regulations can be further improved by ensuring the timely consultation of stakeholders on draft legislation, and formalising the review of existing regulations. This would also help to reduce still high restrictions in professional services, including for lawyers and notaries.

**Bank lending to businesses has improved, but tighter financial conditions are slowing recent progress**. The Hercules securitisation scheme has enabled banks to shift much of their non-performing loans off their balance sheets and improved the quality of their loan portfolios. Accelerating the resolution of remaining non-performing loans on banks' and servicers' balance sheets would release assets pledged as collateral and relieve debtors, supporting credit growth and investment.

**Figure 3. Further gains in living standards hinge on higher productivity and employment**




Note: In Panel A, OECD is an unweighted average of 35 countries.
Source: OECD Productivity indicators (database) and OECD (2024), Employment rate (indicator).

StatLink https://stat.link/8mtek4

The rapid implementation of the new insolvency framework, and efforts to improve judicial processing times, are key to ensure swift restructuring or insolvency processes. To expand access to finance, the government has deployed loan guarantees and is on-lending its NextGenerationEU loans to fund new private investments. Such loan guarantee schemes and the R&D tax credit should be rigorously evaluated to ensure the best use of public resources.

## Accelerating the green transition

Greece has cut emissions over the past decade and renewable energy generation is expanding rapidly. However, reaching emission targets for 2030 while raising living standards will require further decoupling of emissions from economic activity (Figure 4).

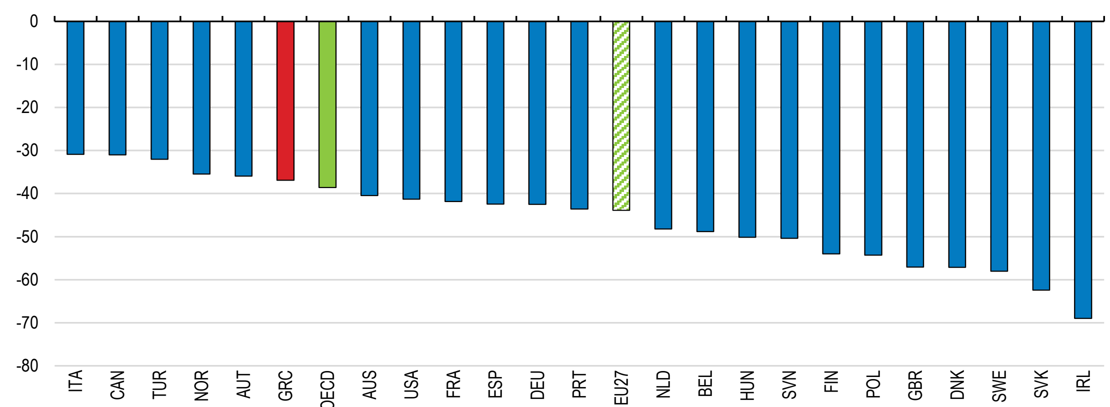
**Achieving Greece's ambitious climate targets requires a broad strategy, including price signals and regulations.** Despite rapid progress, more investment in expanding renewable energy sources is needed. Strengthening price signals will be key to prioritise low-cost emission cuts. Fossil fuel subsidies remain high and should be phased out to harmonise effective emission prices. Opportunities to phase out fossil fuels will be provided by continued progress with connecting islands to the mainland grid to expand access to alternatives to fossil fuels. Tighter regulations, complemented with financial support for vulnerable groups, can steer households and business to invest in greener technologies.

**Electricity generation from renewable sources needs to accelerate further.** Greece aims to almost double the share of electricity generated from renewable sources by 2030, while electricity demand is set to grow. A mix of policies offering financial support and cutting red tape has facilitated a rapid scale-up of generation capacity, but there is room for further improvement, including by implementing the planned one-stop-shop for renewable energy projects and speeding up procedures for obtaining environmental licenses.

**Greece needs to adapt to a hotter climate.** Extreme weather events, such as the 2023 flood in Thessaly, are already causing large economic damages and may well become more frequent and severe. Adjusting existing structures can limit damages but takes time. Incorporating climate hazard planning into infrastructure projects now is crucial to enhance future resilience.

### Figure 4. Emission intensity needs to decrease faster to reach net zero by 2050

Change in total GHG emissions per unit of GDP[1] from 2002 to 2022, in percent




1. Total emissions excluding land use, land-use change and forestry (kilogrammes of CO2-equivalent per 1 000 US dollars).

Source: OECD (2024).

StatLink https://stat.link/rc1q9k

| Main findings | Key recommendations |
|---|---|
| **Improving macroeconomic and fiscal policies** | |
| Public debt has been on a declining trend since 2020 and regained its sovereign investment grade rating, but it remains high. GDP growth is projected to pick up and the government plans primary surpluses around 2.4% of GDP in 2024 and 2025. | Maintain primary fiscal surpluses of 2% of GDP in 2024-25, as planned. Keep public debt on a firmly declining path through more efficient public spending, broader tax bases and growth-enhancing reforms. |
| Spending pressures for public investment, education and health will remain sizeable for years to come, including after the completion of current EU funding. | Gradually shift public spending towards areas supporting growth and equity, building on regular spending and public investment reviews, while containing staff expenditures and maintaining efforts to reduce pension expenditures. |
| Numerous tax expenditures, notably from widespread VAT reduced rates and exemptions, reduce public revenues. Evidence on their effectiveness is weak and VAT expenditures favour wealthier households. | Phase-out VAT reductions and exemptions. |
| Tax evasion has decreased significantly and measures have been taken to foster the digitalisation of transactions and invoicing, but the VAT compliance gap remains large. | Continue efforts to strengthen tax compliance by promoting digital transactions, limiting cash transactions, and rationalising tax expenditures. |
| **Raising employment and incomes** | |
| Youth skills do not appear to match labour market demand. The take-up of vocational education is low and students lack sufficient information about future career opportunities. | Strengthen vocational training at the secondary level and increase the share of work-based training. |
| The social safety net is fragmented and some programmes have low benefit take-up. The eligibility conditions are heterogenous and the level of the minimum income benefits is low. | Consolidate the different support programmes for low-income households and simplify eligibility conditions, while increasing the level of minimum income benefits. |
| Despite some progress in recent years, difficulties in access to childcare continue to hold back women in the labour market. Low spending on childcare contrasts with high birth grants. | Improve access to childcare by shifting public spending from birth grants towards childcare facilities. |
| Public employment services are spending a disproportionate amount of effort on direct job creation. | Rebalance the high share of support for direct job creation towards more training and counselling for unemployed workers. |
| Skill mismatches are pervasive and employers often cannot find workers with the skills they need. Despite mounting training needs and the ongoing development of performance-based assessments for providers, participation in lifelong learning is low and training quality is patchy. | Ensure the quality of training providers through regular quality assessments and improved certifications of adult learning courses. |
| Foreign-born workers make a significant contribution to Greece's workforce, but their skills are under-used. | Establish a national system for the recognition of prior learning and facilitate the recognition of education and skills gained abroad. |
| **Supporting the transition towards a green and sustainable economy** | |
| Greece's National Energy and Climate Plan does not list, nor foresees the phasing out of, comparatively high fossil fuel subsidies. | Phase out fossil fuel subsidies, including on islands whenever alternative energy sources are available. |
| Delays in obtaining licences for renewable energy projects are slowing down investments in renewable energy sources. Recent reforms have simplified procedures for generation licenses and grid connection but not for environmental licenses. | Swiftly implement the planned one-stop-shop for renewable energy projects and review procedures for environmental licenses. |
| Climate change will pose challenges for public infrastructure and is likely to cause damages that can be mitigated through appropriate planning. | Incorporate climate hazard planning into the preparation of infrastructure projects, including by considering shadow carbon prices. |
| **Improving the business environment** | |
| The frequent use of short-notice legislative changes and of amendments limit quality control and stakeholder consultations for draft legislation, despite existing public consultation requirements. | Ensure the effective and timely consultation of stakeholders on new draft legislation and regulations, including by avoinding emergency legislations. |
| There is no systematic, formalised process to review burdens from existing legislation. The government is engaged in the review of regulations, but the process has made slow progress. | Formalise and accelerate the review of existing business regulations in cooperation with businesses and union representatives. |
| Regulations continue to pose barriers to entry and competition in professional services, including lawyers and notaries, hurting downstream activities that rely on these services. | Ease regulatory restrictions in professional services such as lawyers and notaries, including with respect to market entry, pricing of legal services and professional cooperation between lawyers and notaries. |
| Loan guarantee programmes for SMEs have increased rapidly and risk to lock-in resources in low-productivity firms and crowd-out alternative financing sources. | Systematically evaluate loan-guarantee and subsidised lending programmes for SMEs. |
| Recent laws have strengthened whistleblower protection in some cases. However, whistleblower protection remains restricted to a narrow definition of misconduct not including breaches of national law. | Further strengthen whistleblower protection by broadening the concept of misconduct on which reporting is protected to include breaches of national law and serious violations of codes of conduct. |

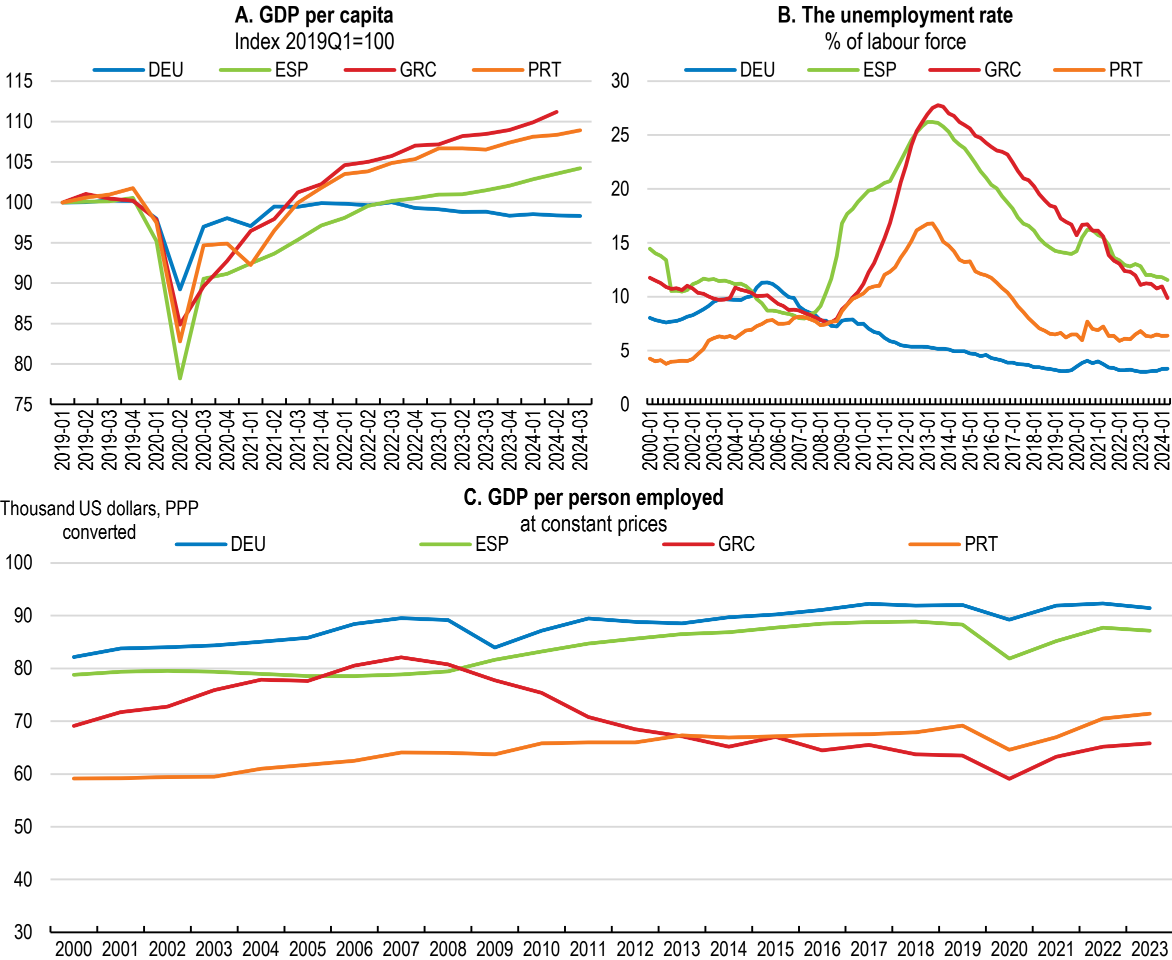
# 1 Key Policy Insights

Antoine Goujard, Timo Leidecker

## Maintaining the reform momentum for strong and sustainable growth in living standards

The Greek economy has weathered recent crises well. Greece's GDP-per-capita growth has outpaced the euro area since early 2021 (Figure 1.1, Panel A). As headwinds are subsiding, the economy is emerging with significant gains in competitiveness, growing investment and more high-tech exports, and historically low levels of unemployment (Panel B). Temporary fiscal support helped cushion external shocks, while not standing in the way of substantial improvements in the fiscal balance. Helped by high inflation as well as fiscal consolidation, public debt levels dropped significantly, and Greece regained investment grade rating of its sovereign debt in 2023.

### Figure 1.1. The economic rebound has been strong




Source: OECD (2024), Economic Outlook: Statistics and Projections (database); OECD Infra-annual labour statistics; OECD Productivity levels.
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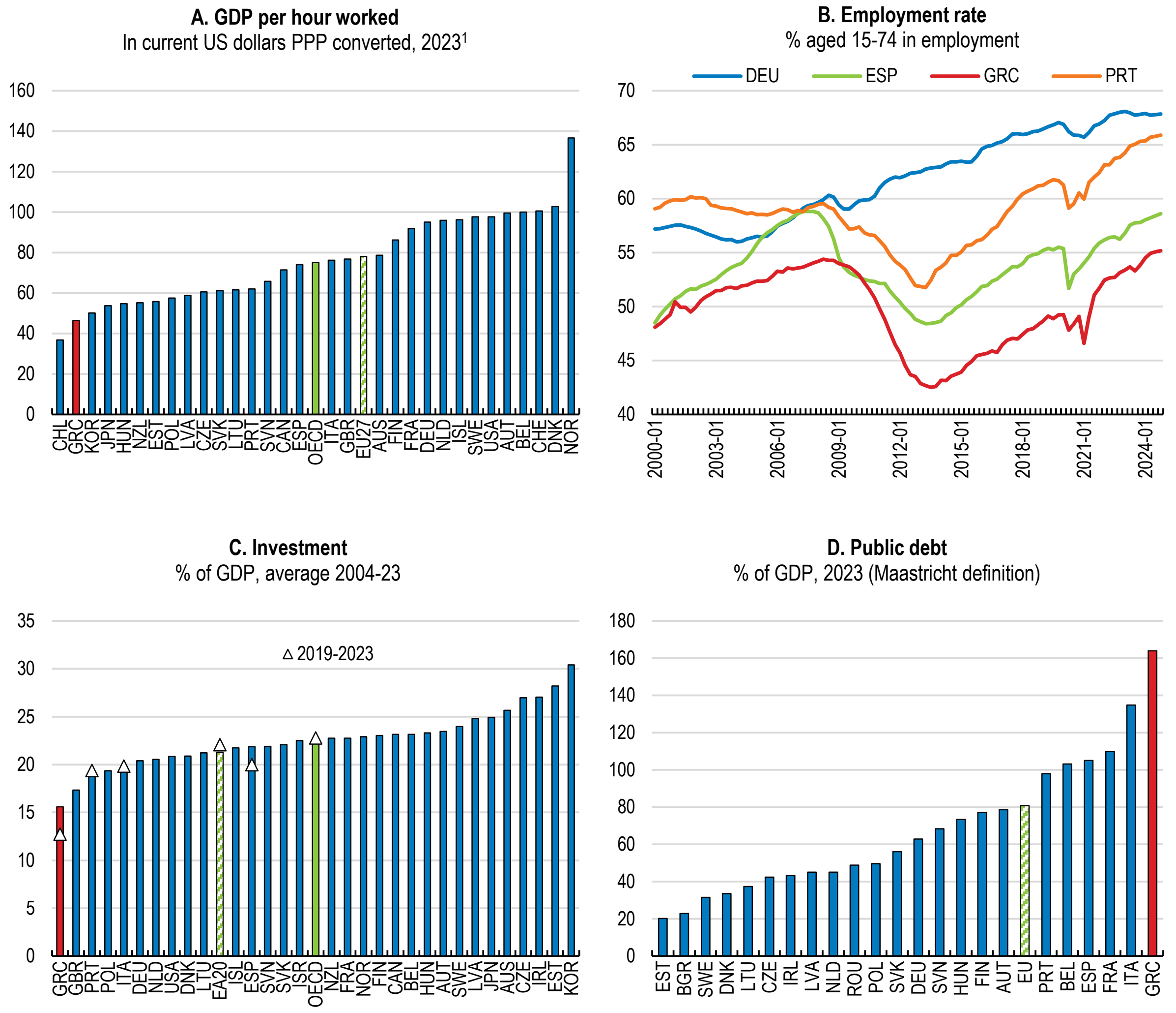
Beneath this strong performance lie significant challenges (Figure 1.2). Despite strong growth, labour productivity has stagnated at low levels over much of the past decade (Figure 1.1, Panel C), partly reflecting a collapse in investment during the economic crisis. Investment remains relatively low, particularly in intangibles and R&D intensity (Figure 1.2 and Chapter 2) (Greek National Productivity Board, 2023[1]; Hellenic Republic, 2022[2]). Competitiveness gains have been achieved largely on the back of declining real wages and may be lost if wages grow in excess of productivity. Moreover, at 163.9% of GDP

in 2023, public debt remains among the highest in the OECD. This high debt level exposes Greece to vulnerabilities in the longer run and sustained primary surpluses remain essential to maintain debt on a prudent path.

### Figure 1.2. Improving productivity and employment are long-term challenges




Notes: 1. Or latest available.

Source: OECD (2024), GDP per hours worked (indicator); National Accounts (database); Economic Outlook: Statistics and Projections (database); Eurostat (2024), Government deficit/surplus, debt and associated data.

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Mobilising larger parts of the working-age population will be important to sustain strong and more inclusive growth. Labour shortages are growing amidst low employment rates, significant labour-market mismatches and unfavourable demographic trends (EC, 2024[3]). With some people still struggling to maintain a continuous attachment to the labour market, and elevated housing and heating costs, parts of the population are facing a heightened risk of poverty. Many firms are also facing challenges. While some firms manage to grow and innovate, many of Greece's small firms – which employ about half of its workforce – still face large obstacles and fail to make full use of digital technologies and raise their performance.

Climate change poses a particular challenge for Greece (EC, 2023[4]). In recent years Greece has suffered unprecedented floods and forest fires, which endangered lives and damaged businesses and

infrastructure. Fiscal space to protect against and rebuild after damages is limited. Contributing to global efforts to reach net zero requires large investments, adding to large pre-existing investment gaps and limited financial resources, while also offering opportunities for greater energy security and adopting new, cleaner and more productive business models.

Greece is approaching these challenges with an ambitious reform agenda (Box 1.1). The government reform programme and the revised National Recovery and Resilience Plan "Greece 2.0" (NRRP) – financed by Next Generation EU (NGEU) funds and totalling EUR 35.95 billion (16% of 2023 GDP), including EUR 18.22 billion of grants – will support private and public investment over the coming years (Hellenic Republic, 2023[5]) (Box 1.2). Measures contained in "Greece 2.0" focus on improving the business climate and advancing digitalisation and could substantially raise growth prospects (OECD, 2023[6]; Malliaropulos et al., 2021[7]). The most recent measures confirm Greece's commitment to structural reforms to combat tax evasion, to speed up court procedures, to strengthen digital transitions, and to improve spatial planning (Hellenic Republic, 2023[8]). This comprehensive list of reforms holds the potential to transform Greece's economy, including by increasing the effectiveness of the public administration.

### Box 1.1. Recent and ongoing structural reforms improve the business environment

Greece has undergone substantial structural reforms in recent years and is continuing its reform agenda with several ongoing and planned measures. Many reforms address key issues highlighted in this and previous Economic Surveys of Greece, as reflected in the tables on Past OECD Recommendations and Actions Taken throughout the Survey. A selection of recent and planned key measures is listed below.

Measures on the **business environment** aim to:

- reduce regulatory burdens by pursuing codification of tax laws, making new legislation easier to understand, introducing risk-proportionality for new licenses and permits, and improving stakeholder consultation (Chapter 2).
- strengthen competition in electricity, transport and telecommunication by improving market functioning, for example through price transparency, and facilitating sharing of infrastructure (Chapter 2).
- facilitate the enforcement of property rights through a new insolvency regime, the consolidation of first-instance courts and the simplification of legal procedures to increase judicial efficiency (Chapter 2).
- combat tax evasion through measures incentivising electronic payments and reforms and observe electronic payments in real time.
- strengthen education and skill supply by expanding access to early childhood education, increasing school autonomy while providing feedback to teachers, and improving lifelong learning, training and job search, notably through the public employment services.

Measures on **public sector efficiency** and **fiscal sustainability** aim to:

- strengthen public sector capacity by improving human resource management including revising civil servant pay scales as well as the recruitment, evaluation, training, and incentives.
- continue to foster public sector digitalisation by digitalising processes, upgrading digital infrastructure, and implementing data governance policies.

Measures on the **green transition** aim to:

- support the energy transition by encouraging investments in renewable capacities through contracts-for-difference, simplifying licensing and permitting procedures, and simplifying licensing and addressing grid congestion.

Source: (Hellenic Republic, 2023[8]).

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

- Greece has made substantial progress in addressing long-standing imbalances but continuous policy action is needed to ensure strong growth and fiscal sustainability.
- Maintaining public debt on firmly declining path and increasing fiscal space for investment requires additional efforts to tackle tax evasion, combined with a gradual shift of spending towards infrastructure, education and health.
- Continuing the reform momentum and a swift implementation of the Recovery and Resilience Plan are essential to raise low productivity and employment.
- Further reforms to strengthen competition, reduce regulatory burdens, improve access to skills and financing would support firm growth and innovation.
- Achieving net zero emissions by 2050 and adapting to climate change requires further efforts, notably in the transport sector, through a mix of investment, regulations and emission pricing.

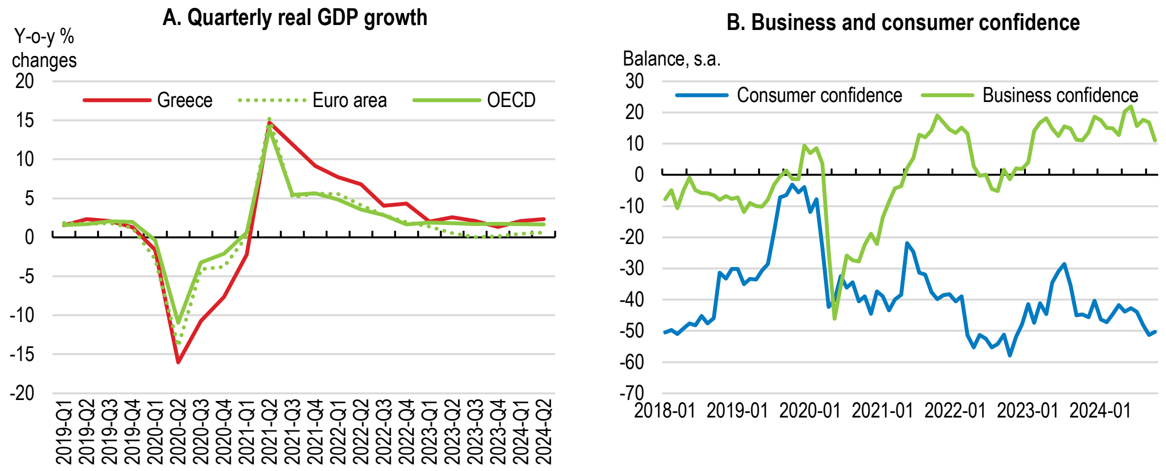
## Economic prospects remain strong but risks are high

### *The economy has performed well*

Greece's economy held up well during recent crises and outpaced growth in the euro area and the OECD average in recent years (Figure 1.3, Panel A). Floods in September 2023 – temporarily disrupting transport links and affecting agricultural production – contributed to more moderate growth in 2023, but the economy recovered in early 2024, following a strong rebound since 2021.

The outlook remains positive. Business expectations are above their long-term average (Figure 1.3, Panel B). The manufacturing purchasing manager's index eased but continues to point toward expansion. Growth is projected at 2.3% in 2024 before picking up to 2.5% in 2026 (Table 1.2). A recovery of external demand and continued growth in tourism will support exports. Ongoing employment gains and recovering real wages will raise consumption. The disbursement of Recovery and Resilience Funds and improving bank health will boost investment.

**Figure 1.3. Greece has outperformed peer economies and business confidence remains strong**




Note: Panel A: GDP calendar and seasonally adjusted. Panel B: Business confidence is an unweighted average of confidence indicators in industry, construction, retail trade and services.
Source: OECD database – Key short-term economic indicators and Eurostat.

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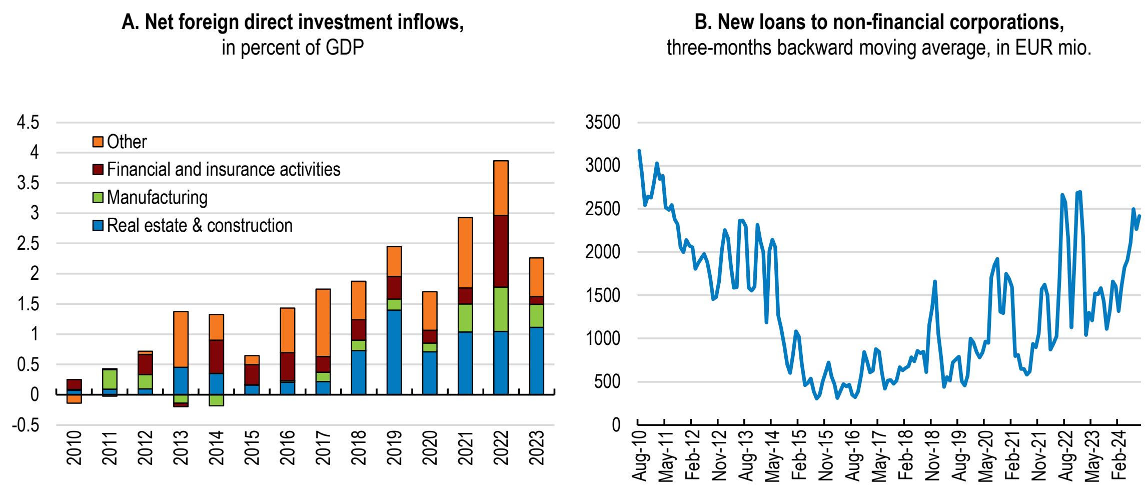
Since September 2023, four major rating agencies upgraded Greece's sovereign debt to investment grade rating, which it had lost during the economic crisis in 2010 (ECB, 2024[9]). Besides improving fiscal outcomes, this upgrade reflects sustained structural reforms and enhanced banking-sector resilience (ESM, 2023[10]) (Box 1.1). Improvements in the business environment are supporting employment growth and a recovery of private investment, contributing to the positive outlook (Chapter 2). Accompanying these improvements, net inflows of foreign direct investment have risen in recent years, of which a growing share is directed towards manufacturing (Figure 1.4, Panel A). Regaining investment grade additionally broadens access to funding for the banking sector, supporting business lending and investment as monetary policy in the euro area remains tight.

The Recovery and Resilience Plan "Greece 2.0" (Box 1.2) is supporting investment growth, which is projected to pick up further to 9% in 2026. The growing disbursements of Recovery and Resilience Funds are expected to continue to outweigh the effects of tight monetary policy in the euro area, which has led to a doubling of interest rates for non-financial corporations since July 2022, but new business lending remains high (Figure 1.4, Panel B). Greece revised its Recovery and Resilience Plan in November 2023, raising additional funds of EUR 795 million (0.3% of 2023 GDP) for the energy transition and energy-improving renovations and expanding the loan component to businesses by EUR 5 billion, to a total of EUR 17.7 billion (7.9% of 2023 GDP) (Hellenic Republic, 2023[5]). Reflecting these revisions, the government projects grant disbursements to rise from 0.9% of GDP in 2023 to 1.5% of GDP in 2024 to 2.0% in 2025 and 2.7% in 2026. Additional impetus for private investment growth will be provided by the on-lending of funds, mostly through banks, with EUR 13.8 billion of loans (6.1% of 2023 GDP) having been contracted in early 2024.

The effective implementation and disbursement of Recovery and Resilience Funds will be crucial to realise the plan's full potential to boost economic growth. Greece ranks first in the EU in absorbing Next Generation EU funds (IMF, 2024[11]). Meanwhile, disbursements to businesses were delayed in 2023 due to bottlenecks at local and regional administrations and Greece's elections in May and June 2023 (Bank of Greece, 2023[12]). From 2027 onwards, after the plan ends, more of the increased public investment will need to be financed through the national budget.

### Figure 1.4. Investment is growing




Note: Panel B: Euro-denominated new loans vis-à-vis euro area residents from domestic credit institutions.
Source: Panel A and B: OECD calculations based on Bank of Greece (2024).

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Greece's export performance has also improved, building on higher goods exports and a strong tourism sector. Goods exports grew faster than service exports over the past five years and accounted for more than half of Greece's total exports over 2020-23. An increasing share of goods exports are high-tech, according to 2022 data (MoF, 2024[13]), though tourism and shipping services still account each for about one fifth of exports (Figure 1.5). Tourism remains on a strong upward trend: travel receipts over the first half of 2024 were 12% higher compared to the same period in 2023 (27% higher compared to the same period in 2019), mostly reflecting an increase in inbound travelers (Bank of Greece, 2024[14]).

Strong employment gains pushed the employment rate close to its pre-crisis peak (Figure 1.6, Panel A). The increased employment also reflects sizeable gains among women and the youth, narrowing gaps to the OECD average (Panel A). Employment gains are occurring against the backdrop of ongoing population ageing that subtracts from the labour force (Panel B). The unemployment rate fell to 9.3% in September 2024, the lowest level since the beginning of the economic crisis in 2009 – though remaining high compared to other OECD countries (Panel C). Labour shortages have been rising and are high especially in construction and tourism (Bank of Greece, 2023[12]). Greece experienced the sharpest drop in labour market slack among EU countries since the start of the pandemic in early 2020 (Panel D).

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

Greece's Recovery and Resilience Plan "Greece 2.0", updated in November 2023, contains 103 planned investments and 76 structural reforms spread across four pillars: green transition; digital transformation; employment, skills and social cohesion; and private investment and transformation of the economy. The plan's funds total EUR 36.0 billion (16% of 2023 GDP), including EUR 18.2 billion of grants and EUR 17.7 billion of loans. Of these funds, 38% are allocated to climate objectives and 22% to support the digital transition. The government expects total investments mobilised through the plan to amount to over EUR 60 billion of total investment (27% of 2023 GDP) by 2026. Besides improving Greece's capital base, administrative and policy reforms funded from the plan are likely to have lasting effects for Greece's public services and business environment.

Implementation is proceeding well. The Plan was among the first submitted and approved for access to the NextGenerationEU Facility. Progress with the reforms and investment projects allowed Greece to access the fourth payment in September 2024. Concluded milestones include measures on the green energy transition, simplification and digitalisation of public services, and financial incentives for private investment and firm growth. By April 2024, 768 projects with a total budget of EUR 21.8 billion (9.7% of 2023 GDP) were ongoing.

### Table 1.1. Greece 2.0 foresees growing disbursements of EU funds until 2026

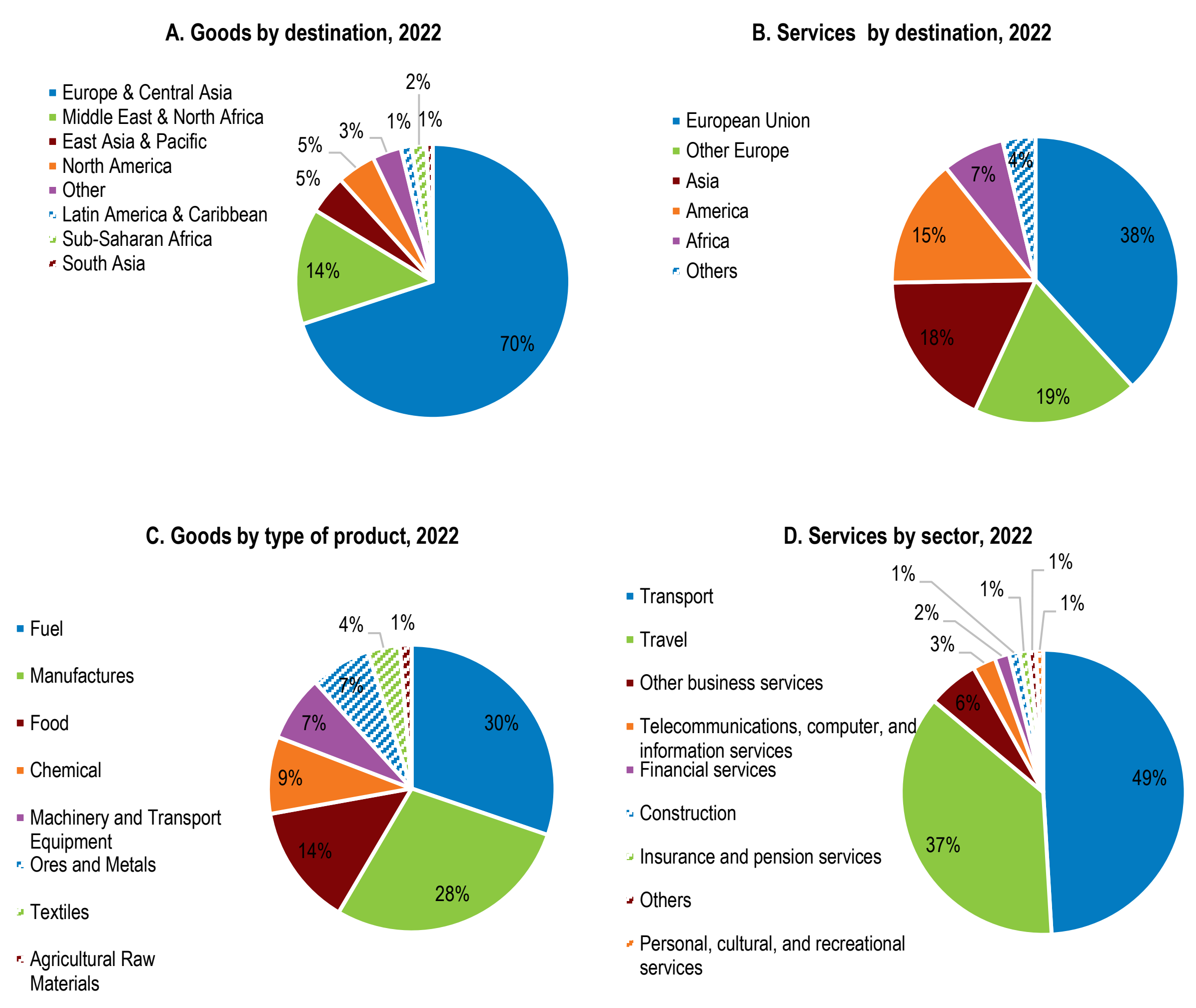
Disbursements of NextGeneration EU resources by Greece, % of GDP

| | 2021 Disbursed | 2022 Disbursed | 2023 Disbursed | 2024 Projected | 2025 Projected | 2026 Projected |
|---|---|---|---|---|---|---|
| NextGenerationEU resources | 0.2 | 0.5 | 1.3 | 2.3 | 3.9 | 4.7 |
| *of which* | | | | | | |
| Grants | 0.2 | 0.4 | 0.9 | 1.5 | 2.0 | 2.7 |
| Loans | 0.0 | 0.1 | 0.4 | 0.8 | 1.9 | 2.0 |

To facilitate implementation and address challenges like administrative hurdles, supply and workforce constraints, and political resistance from affected groups, the government has created a dedicated secretariat in charge of implementing and monitoring the Plan linked to the Prime Minister's office. This secretariat 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.

Source: (RRF Agency, 2024[15]; Hellenic Republic, 2024[16]; Hellenic Republic, 2024[17])

## Figure 1.5. Greece's export performance and structure




Source: World Bank WITS and OECD International trade in services.

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Real wages have seen several years of decline. From the onset of the pandemic until the year of Russia's war of aggression against Ukraine real wages dropped as inflation outpaced nominal wage growth in the total economy, driven by public-sector wage restraint (Figure 1.7, Panel A). However, private sector wages have recorded modest real increases. Despite these developments in real wages, unit labour costs have been increasing – though less so than in other OECD countries – reflecting weak productivity growth (Figure 1.7, Panel B). Moderation in nominal wage growth therefore contributed to Greece's competitiveness.

Since 2022, real wages picked up again. Nominal wages grew by 13.8% from the second quarter in 2022 to the second quarter in 2024, while prices rose by 6.6%. Minimum wage increases, the latest in April 2023 and April 2024, and a tightening labour market are supporting wage growth. The minimum wage has increased by 41.6% since late 2018 (Bank of Greece, 2024[18]). Greece also re-introduced a mandatory seniority allowance for minimum wages in April 2024, meaning that minimum wages are higher for those with more years of experience, which includes the bulk of Greece's workforce. The statutory minimum wage now stands at EUR 830 per month or EUR 968 per month accounting for the Christmas, Easter, and holiday bonuses. Going forward, high and growing labour shortages and labour force upskilling and reskilling are projected to support stronger wage growth, which will improve households' purchasing power.

## Table 1.2. Macroeconomic indicators and projections

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| | Current prices (billion EUR) | | | | | |
| **Gross domestic product** (GDP) | 184.6 | 5.7 | 2.3 | 2.3 | 2.2 | 2.5 |
| Private consumption | 126.3 | 8.6 | 1.8 | 1.8 | 1.2 | 1.4 |
| Government consumption | 39.8 | 0.1 | 2.6 | -2.4 | 1.0 | 0.9 |
| Gross fixed capital formation | 25.5 | 16.4 | 6.6 | 7.5 | 8.8 | 9.5 |
| Housing investment | 2.3 | 33.9 | 20.0 | -5.9 | 2.4 | 1.8 |
| Final domestic demand | 191.6 | 7.9 | 2.6 | 1.8 | 2.3 | 2.6 |
| Stockbuilding[1] | 6.8 | 0.2 | -0.8 | 1.7 | -0.1 | 0.0 |
| Total domestic demand | 198.4 | 7.8 | 1.7 | 3.4 | 2.1 | 2.6 |
| Exports of goods and services | 74.3 | 6.6 | 1.9 | 0.7 | 3.3 | 2.7 |
| Imports of goods and services | 88.1 | 11.0 | 0.9 | 6.0 | 3.3 | 2.8 |
| Net exports[1] | -13.8 | -2.6 | 0.4 | -2.6 | -0.2 | -0.2 |
| **Other indicators** (growth rates, unless specified) | | | | | | |
| Potential GDP | . . | 1.8 | 2.2 | 2.2 | 2.2 | 2.3 |
| Output gap[2] | . . | -0.1 | 0.0 | 0.1 | 0.1 | 0.3 |
| Employment | . . | 5.4 | 1.3 | 2.3 | 0.7 | 0.6 |
| Unemployment rate | . . | 12.4 | 11.1 | 10.1 | 9.4 | 8.9 |
| GDP deflator | . . | 6.5 | 5.9 | 3.5 | 2.6 | 1.7 |
| Consumer price index | . . | 9.3 | 4.2 | 3.0 | 2.7 | 2.1 |
| Core consumer price index | . . | 4.6 | 5.3 | 3.7 | 3.3 | 2.1 |
| Household saving ratio, net[3] | . . | -11.4 | -10.6 | -11.6 | -10.2 | -10.0 |
| Current account balance[4] | . . | -10.1 | -6.5 | -5.4 | -5.2 | -5.2 |
| General government fiscal balance[4] | . . | -2.5 | -1.3 | -0.8 | -0.6 | -0.7 |
| Underlying general government fiscal balance[2] | . . | -2.8 | -2.2 | -2.4 | -2.7 | -3.4 |
| Underlying government primary fiscal balance[2] | . . | -0.5 | 0.5 | 0.8 | 0.3 | -0.3 |
| General government gross debt (Maastricht)[4] | . . | 177.0 | 163.9 | 157.3 | 152.2 | 148.1 |
| General government net debt[4] | . . | 137.6 | 130.6 | 124.0 | 118.9 | 114.8 |
| Three-month money market rate, average | . . | 0.3 | 3.4 | 3.6 | 2.4 | 2.1 |
| Ten-year government bond yield, average | . . | 3.5 | 4.0 | 3.4 | 3.1 | 3.2 |

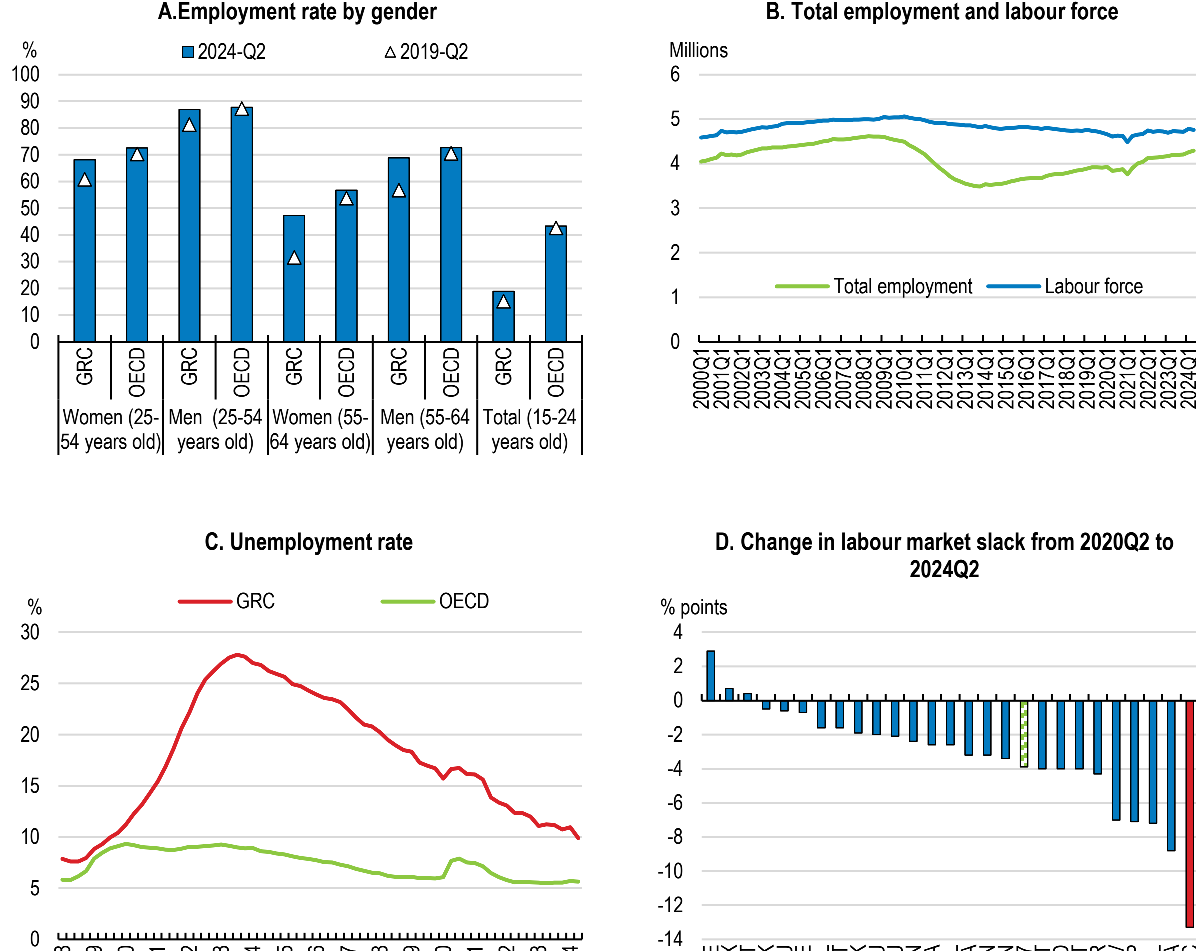
Note: 1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of household disposable income.
4. As a percentage of GDP.
Source: OECD Economic Outlook 116.

Inflation is proving persistent. After a swift decline driven by the reversal of energy prices, inflation levelled off in the second half of 2023 and reached 3.1% in October (Figure 1.8, Panel A). Energy prices decreased by 1.6% in the year to October 2024, while food prices rose by 1.0%. Core inflation remains sticky at 4.3% in October 2024, mostly reflecting increases in prices for services, which rose by 5.6% the year into October 2024, and a tight labour market. Expectations for further price rises have eased across many sectors, including retail and manufacturing, while proving more persistent in services and construction (Figure 1.8, Panel B). Headline and core inflation are projected to decline slowly amidst modest wage pressures, returning close to target by end 2026 (Table 1.2).

Fiscal support in response to the inflation peak is gradually being reduced. The primary surplus reached 1.5% of GDP in 2023 and is estimated at 2.4% from 2024 to 2026. Emergency energy measures, which amounted to 1% of GDP in 2023, are set to be phased out in 2024. Government compensation for damages from forest fires and floods is estimated at 0.3% of GDP in 2023. A growing economy and further progress in combatting tax evasion (discussed below) will bolster revenues, which will create some fiscal space for priority measures, while increasing primary surpluses. Additional measures for 2024 amount to 0.4% of

GDP and include a public sector wage reform, discounts for taxpayers with children, and increases in the guaranteed minimum income. A one-off tax on refineries (0.1% of GDP) will also finance pension top-ups. In 2025, a reduction in social security contributions (0.2% of GDP) and the indexation of pensions (0.2% of GDP) will support incomes. Public sector wages, previously frozen, will also be raised to align with minimum wage increases.

## Figure 1.6. Employment rates have increased




Source: Panel A, B and C: OECD Infra-annual labour statistics. Panel D: OECD calculations based on Eurostat.

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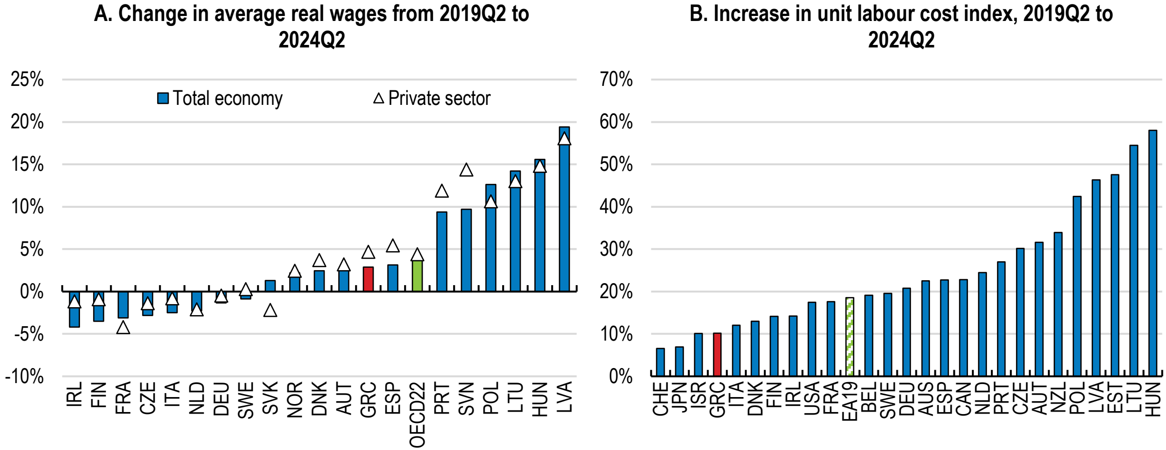
## Figure 1.7. Moderate wage growth has contributed to competitiveness gains




Note: Panel A: average wages refer to the national-accounts based total wages and salaries divided by the number of employees. Real average wages are deflated by a price deflator for private final consumption expenditures in 2022 prices.. The private sector is the difference between "all activities" and "public administration, defence, education, human health and social work activities". Panel B: Based on seasonally-adjusted data. Data from 2024Q2 except for EA, GBR, ISR, KOR, NZL, (2024Q1); TUR (2023Q4); OECD (2023Q1); SVK (2020Q3).
Source: OECD National Accounts and OECD Productivity and unit labour costs.

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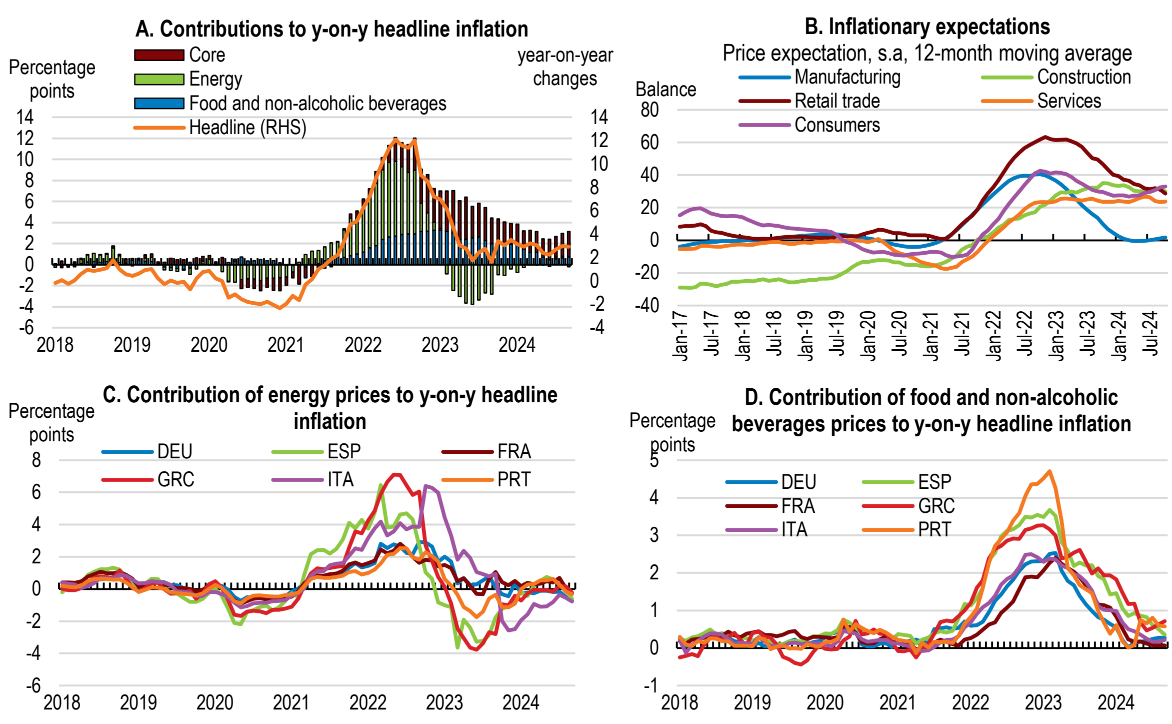
## Figure 1.8. The decline in inflation is slowing down amidst growing wage pressures




Note: 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 Price Statistics database; and LSEG.

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### *The balance of risks is tilted to the downside*

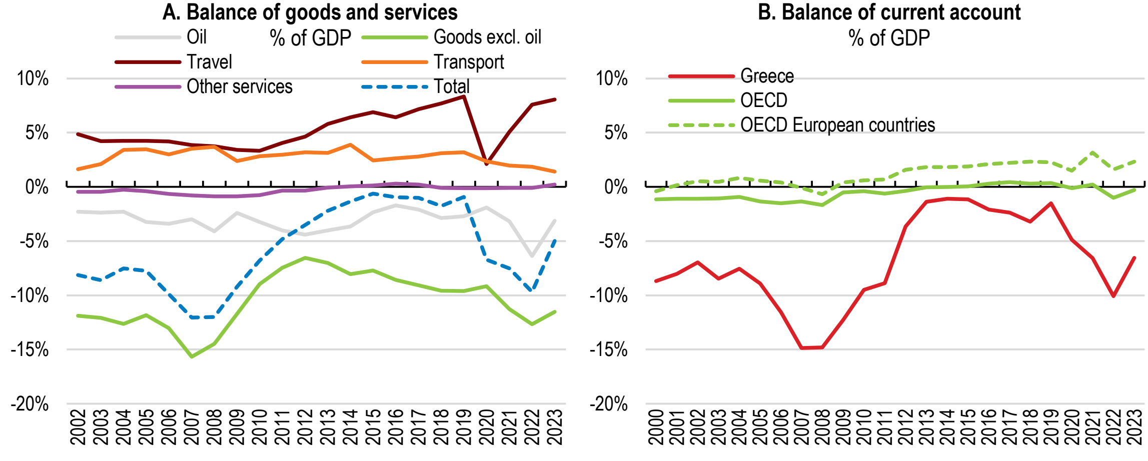
Significant uncertainty about economic prospects remains, with major risks being on the downside. Like in other OECD countries, businesses have been hit by two shocks in a row, as the pandemic was immediately followed by the war in Ukraine and imported price pressures. High input costs, including for energy, have stretched thin financial buffers and some firms will face liquidity and solvency challenges that could potentially lead them into bankruptcy. Households are facing higher debt-servicing costs that may become difficult to meet. Meanwhile, direct macroeconomic risks from Russia's war against Ukraine are limited, as Greece's goods trade with Russia and Ukraine is modest. The implementation of reforms and investments of Greece's Recovery and Resilience Plan "Greece 2.0", including the disbursement of loans funds to businesses, is currently on track, but potential delays could pose risks for investment and potential growth. New extreme weather events, such as last year's floods in Thessaly, are becoming more likely with a warming climate and could disrupt production and reduce domestic demand. A possible need for the public sector to bear part of the private sector's damages from climate change might entail additional fiscal costs (see below). Finally, major potential shocks could also alter the outlook (Table 1.3).

**Table 1.3. Low probability events that could lead to major changes in the outlook**

| Vulnerability | Possible outcome |
|---|---|
| Geopolitical tensions could intensify. | A loss of confidence among investors would reduce global demand and foreign direct investment, and lead to lower growth in Greece. Higher energy prices and disruptions to global supply chains would induce a rise in inflation, a fall in incomes and a worsening current account balance. |
| Inflation could remain high for longer than expected. | Persistently high inflation would reduce households' real incomes. Wage increases could exceed productivity growth, reversing past competitiveness gains and weighing on the trade balance. |
| Financial conditions could remain tight for longer than expected. | Borrowing costs remaining high for longer would dampen investment growth. The impact on Greece's sovereign debt re-financing costs in the short- to medium-term would be mitigated by long debt maturities and fixed interest rates. |

Several risks – including a flaring up of geopolitical tensions, slower growth among Greece's main trading partners, or a deterioration of Greece's competitiveness due to wage growth exceeding productivity gains – could weaken export growth and widen the large current account deficit (Figure 1.9). The current account deficit had first widened since 2019 amid a growing trade deficit – first due to a halt in tourism during the pandemic and the rising prices for energy imports after Russia's invasion of Ukraine. Despite declining substantially in 2023, with the decrease in energy prices and further growth in tourism, the current account deficit remained at 6.5% of GDP in 2023.

**Figure 1.9. The current account deficit narrowed with falling energy prices**




Source: Panel A: OECD calculations based on Bank of Greece (2024); Panel B: OECD Database.

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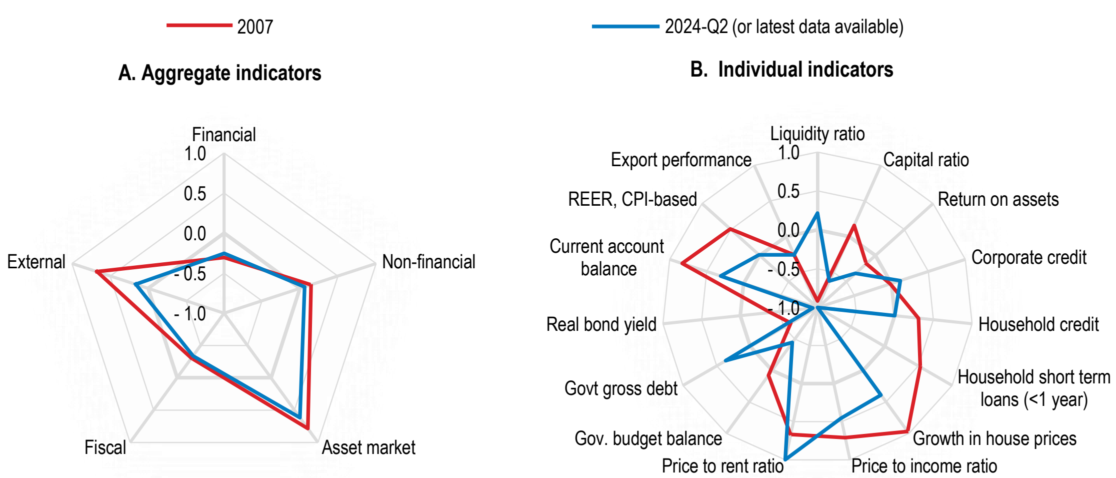
### *Financial risks require close monitoring*

*Bank balance sheets and profitability have improved*

The resilience of Greece's financial system has improved significantly since 2007 (Figure 1.10). Financial soundness indicators show a recovery since the onset of the sovereign debt crisis in 2010 and the credit ratings of major Greek banks have improved over recent years (Figure 1.11) (HFSF, 2023[19]; Bank of Greece, 2024[20]). The securitisation of banks' non-performing loan (NPL) portfolios under the Hellenic Asset Protection Scheme ("Hercules") allowed the NPL ratio to decline to 6.9% by June 2024 – down from their peak at 49.1% in March 2017 (Bank of Greece, 2024[20]) (Figure 1.11, Panels A and B). Still, current NPL levels remain well above the OECD and euro area averages. The Hercules scheme has been renewed in 2024, but additional policy action could further improve loan restructuring and insolvency procedures, as well as the handling of NPLs that are now managed by credit servicing firms (CSFs) (see Chapter 2) (IMF, 2024[21]; EC, 2024[22]).

#### Figure 1.10. Macro-financial vulnerabilities remain sizeable

Index scale of -1 to 1 from lowest to greatest potential vulnerability, where 0 refers to long-term average




1. Each aggregate macro-financial vulnerability dimension is calculated by aggregating (simple average) normalised individual indicators from the OECD Resilience Database. Individual indicators are normalised to range between -1 and 1, where -1 to 0 represents deviations from longterm average resulting in less vulnerability, 0 refers to long-term average and 0 to 1 refers to deviations from long-term average resulting in more vulnerability. Financial dimension includes: regulatory capital ratio, regulatory Tier 1 capital ratio and the return on equity ratio. Nonfinancial dimension includes: private bank credit (% of GDP), household credit (% of GDP) and corporate credit (% of GDP). The asset market dimension includes: growth in real house prices (year-on-year % change), house price to disposable income ratio and house price to rent ratio. Fiscal dimension includes: government budget balance (% of GDP) (inverted) and government gross debt (% of GDP). External dimension includes: current account balance (% of GDP) (inverted) and real effective exchange rate (REER) (relative consumer prices).
Source: Calculations based on OECD (2024), OECD Resilience Database, April.

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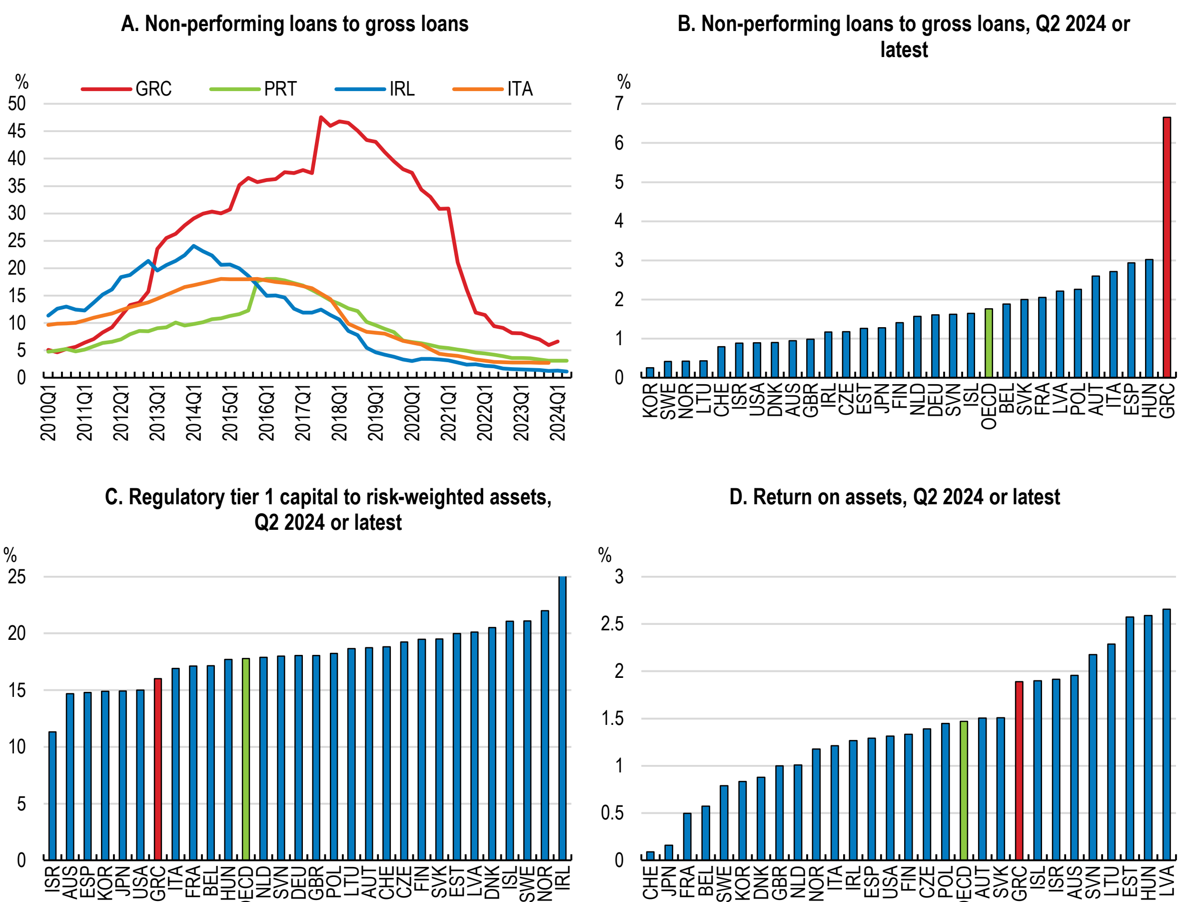
Banks' profitability and capital ratios have also improved, although capital ratios remain below the OECD average (Figure 1.11, Panels C and D). Returns on assets and equity increased further in 2023, owing to the fast repricing of loans with adjustable interest rates and accompanied by widening net interest margins and rising deposits (IMF, 2024[21]; EC, 2024[22]). Despite the high interest rate environment, the return to investment grade in the second half of 2023 contributed to a further decline in sovereign and bank bond yields and facilitated the access of Greek banks to capital markets (Bank of Greece, 2024[20]).

However, long-term profitability and capital adequacy remain potential sources of concern. The quality of Greek banks' prudential own capital remains low, weakening the loss absorption capacity of the banking system: in June 2024 deferred tax credits (DTCs), special deferred tax assets guaranteed by the state in

case of reported losses, represented 41% of total prudential own funds (down from 52% in December 2022). DTCs result from the offsetting of past losses against tax liabilities, for losses resulting from the restructuration of the Greek sovereign bonds or past bad loans. However, in an adverse scenario where bank health were to deteriorate, DTCs could discourage banks from disposing of non-performing loans, as this would lead to additional net accounting losses, which could lead banks to issue equity in favour of the government and dilute existing private shareholders. Moreover, other deferred tax assets are included in Greek banking groups' prudential own funds, accounting for around 9% of their total prudential own funds (Bank of Greece, 2024[20]).

## Figure 1.11. Bank health has improved




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"and are not shown in the cross-country data presented in these charts. Panel B to D: Each Panel contains unweighted OECD average of available countries. Due to data unavailability, the OECD average excludes New Zealand for any panels.
Source: IMF (2024), Financial Soundness Indicators (FSI) database.

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The exposure of Greek banks to sovereign debt remains high. Greek sovereign debt securities accounted for 10% of the banking system's assets in early 2024, higher than the 2.8% euro area average (ECB, 2024[23]). Prudence with respect to dividend distributions and the activation of a countercyclical capital buffer would help to further increase banks' resilience (IMF, 2024[21]).

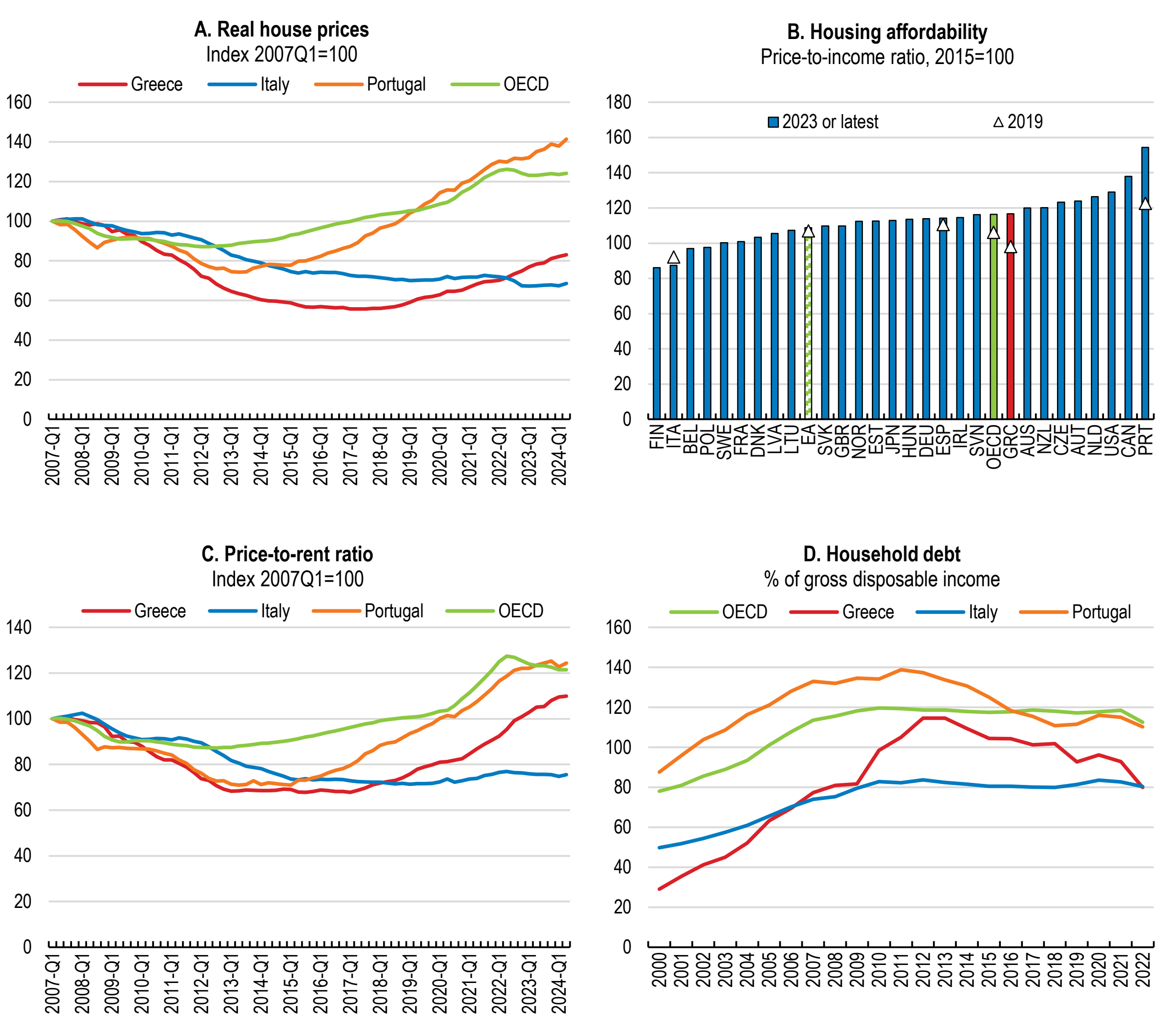
Developments in non-performing loans, including the unlikely-to-pay segment, should be closely monitored. Going forward, the positive effect of elevated interest rates on net interest margins and capital is likely to diminish in light of the recent gradual shift in monetary policy and the maturing of TLTRO III operations that allowed banks to benefit from low cost of funding and increased liquidity. The net inflow of new NPLs was slightly positive in 2023 and, for smaller banks (less significant institutions or LSIs), the

NPL ratio, although declining, remained particularly high, standing at 36.4% in June 2024 (Bank of Greece, 2024[20]). The authorities should also continue to carefully monitor the performance of securitised NPLs. The recovery performance of distressed debt by credit servicers stands below expectations (IMF, 2024[21]), and pressures on borrowers are rising as financial conditions have tightened and the economy has slowed.

### *Rising house prices could affect the quality of banks' housing loan portfolios*

Risks associated with higher debt service costs for mortgage loans are mitigated by the improved financial situation of households over the past decade and the historically low unemployment rate (Figure 1.12 and Figure 1.6). Gross household debt as a share of gross disposable income has fallen to 76% in 2022, a decline of around 38 percentage points since 2012. Loan portfolios are mostly healthy, with loan-to-value (LTV) ratios at or below 80% for 88% of loans collateralised by residential real estate in the first half of 2024 (Bank of Greece, 2024[20]). Yet, banks should continue to identify and present solutions to prevent household credit default. This could include the renegotiation and restructuring of credit contracts to adapt loan conditions to borrowers' ability to service their debt.

## Figure 1.12. House prices have increased faster than household income




Source: OECD Analytical House Prices Indicators (database); OECD Financial indicators dashboard: Households and NPISH.

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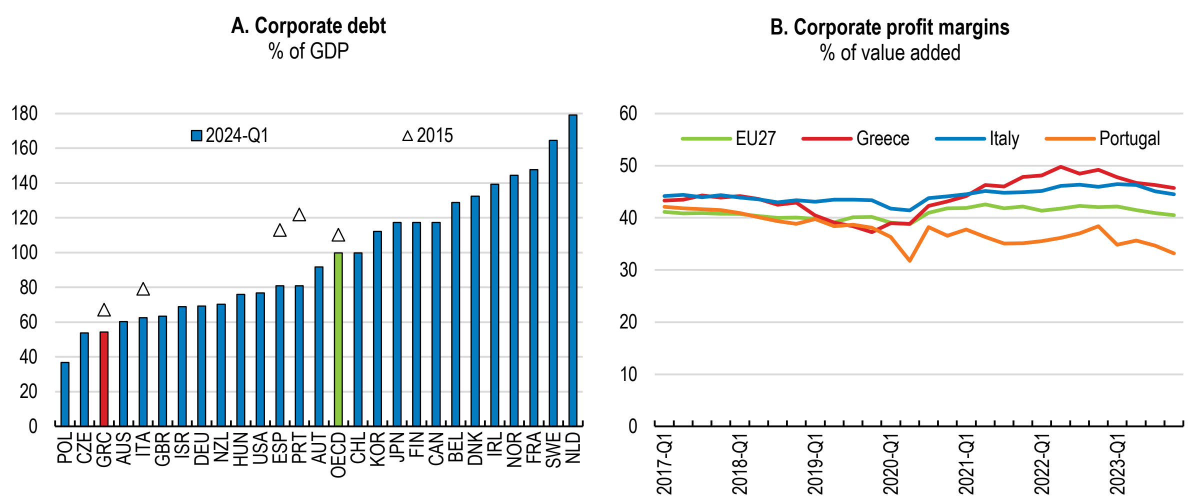
House prices have increased by 69% since the 2017 trough to the second quarter of 2024 and have reached high levels compared to incomes and rents, creating affordability issues (Figure 1.12). In 2022, 27% of the country's population shouldered housing costs that accounted for over 40% of their disposable income, compared with 9.4% of the euro area population (Bank of Greece, 2023[24]). The fast increase in housing prices is concentrated in the largest cities and is in part due to the increasing share of non-resident buyers in the Greek real estate market, notably in the Attica region that includes the Athens metropolitan region and in tourists areas (EC, 2024[22]). While in the short term, the risk of a sharp decline in house prices and the associated financial stability risks is limited (ESRB, 2024[25]), the housing market requires careful monitoring. The government tightened the eligibility conditions of its golden visa programme in April 2024, which may reduce demand for properties by foreign buyers, and launched the “Renovate-Rent” programme to increase housing supply through renovation subsidies of up to EUR 50 million. In a welcome move, the Bank of Greece introduced limits on loan-to-value and debt-service-to-income ratios effective from January 2025, with more lenient caps for first time buyers, which will reduce the risk profile of new borrowers (Bank of Greece, 2024[26]).

### *Business loans appear resilient*

The financial situation of non-financial corporations, which account for around 57.4% of banks’ loan portfolio (Bank of Greece, 2024[27]), has improved over the past decade (IMF, 2021[28]). After a temporary increase in 2020, corporate debt declined to its pre-crisis level in early 2023 (Figure 1.13, Panel A). Though interest rates on new loans of non-financial corporations have increased sharply from 2.5% in September 2021 to 5.3% in September 2024, adding to the financial challenges resulting from the pandemic and the rise in energy and other input costs, insolvencies remained well below their 2019 level in 2022 (ELSTAT, 2023[29]). Firms’ profit margins have declined since 2021, but they remained above the level observed prior to the COVID-19 crisis (Figure 1.13, Panel B). However, profit margins could decline further, particularly for those firms most exposed to wage increases, or reflecting damages from the recent disasters caused by extreme weather. To better identify and monitor vulnerable firms, regular micro data-driven approaches of corporate balance sheets could be deployed, as in France and Portugal (Bank of Portugal, 2022[30]; Bénassy-Quéré, 2022[31]). Such approaches could also help improve the targeting of measures to support viable firms that face temporary liquidity problems (Chapter 2).

## Figure 1.13. Corporate vulnerabilities have declined




Note: Average of the OECD countries for which data is available.
Source: BIS, Credit to the non-financial sector, BIS WS_TC 2.0 (data set); Eurostat (2024), National Accounts (database).

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### Table 1.4. Past OECD recommendations to address financial risks

| Recommendations in past surveys | Actions taken since 2023 |
|---|---|
| Swiftly complete the clearance of non-performing loans, including through the Hercules scheme. | In December 2023, the Hercules scheme was reintroduced until end December 2024 and the supervision of credit servicers was strengthened. The planned 2024 judicial reform also aims at speeding up insolvency procedures. |
| Encourage the growth of non-bank financing by regulating to ensure transparency and information sharing about loan portfolios and platforms' performance. | In December 2023, a new law authorised non-bank lending to households and firms. |

## Reducing public debt while supporting growth and equity

### *Fiscal policy will need to maintain public debt on a firmly declining path*

Like in all OECD countries, the COVID-19 crisis triggered a deterioration of public finances in Greece, widening the fiscal deficit to 9.6% of GDP in 2020. Since then, the deficit progressively declined to 2.5% of GDP 2022 and 1.3% in 2023, significantly exceeding the 2023 budget target of -2.1% of GDP (Figure 1.14, Panel A). Public debt declined to 163.9% of GDP in 2023 (Maastricht definition), the lowest ratio since 2010 (Figure 1.14, Panel B). The strength of the economy, inflation and the reduced budget deficit contributed to the decline in the debt ratio in 2023, together with a partial phasing-out of the significant support measures linked to surging inflation and the better-than-expected performance of tax revenues, in particular from value added tax and social security contributions (HFF, 2023[32]; Hellenic Republic, 2023[33]). After more than a decade, Greece's credit rating returned to investment grade in late 2023, making Greek sovereign bonds eligible for the ECB's monetary policy operations in the standard collateral framework. Markets have already priced down Greek sovereign bond risks significantly (Figure 1.14, Panels C and D).

Current fiscal plans are projected to result in a continuous improvement in headline and primary fiscal results, leading to a continuous decline of the debt-to-GDP ratio over 2024-25. Refinancing risks are limited in the medium term. Though public debt will remain at very high levels (Figure 1.14, Panel B), it is set to decline from 163.9% of GDP in 2023 to 148.1% in 2026, ensuring compliance with the recently adopted EU fiscal rules (Council of the EU, 2024[34]).

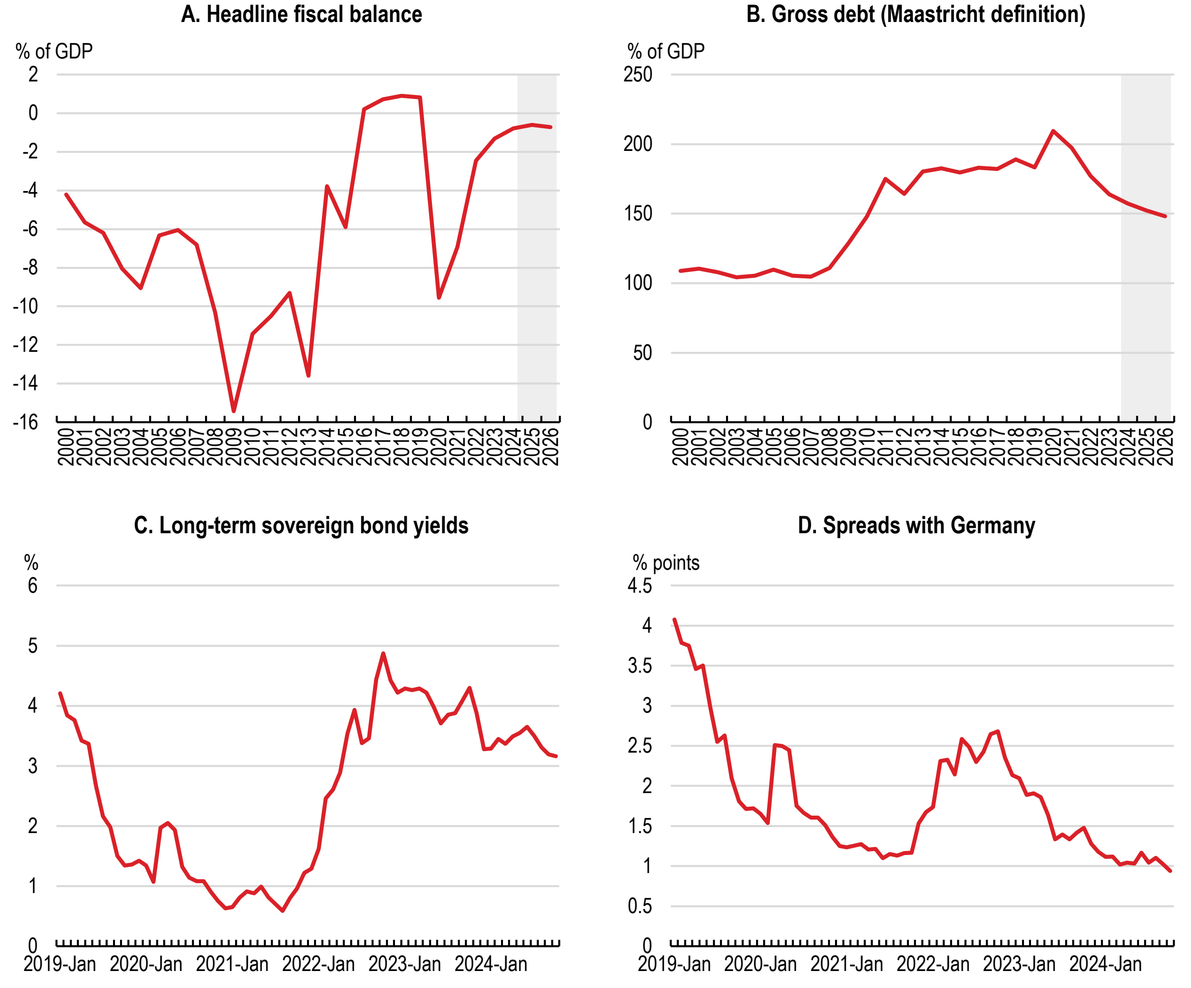
The structure of public debt is dominated by loans from official institutions. Its weighted average maturity is close to 19 years in 2024 (Hellenic Republic, 2023[33]). Nearly all these loans are at fixed interest rates and denominated in euros, limiting the exposure of Greece's public debt to currency or interest rate risks. The government has repaid more expensive credits, including all of its borrowings from the IMF in April 2022. In December 2023 it held cash reserves of EUR 33.5 billion (15% of GDP) as protection against potential interest rate rises or market disruptions. Fiscal authorities intend to use some of these cash reserves to repay in advance nearly EUR 8 billion of debt to the Greek Loan Facility (GLF) in late 2024, which would help to accelerate debt reduction.

Off-balance-sheet liabilities could imply risks for fiscal accounts if executed. Government support, notably to the financial system (IMF, 2019[35]) and corporations (Chapter 2), has led to government guarantees amounting to 12.2% of GDP in 2022, and liabilities linked to State-Owned Enterprises (SOEs) reached to 144.1% of GDP in 2022, though on a declining trend since 2020, while liabilities from off-balance sheet Public Private Partnerships (PPPs) are low, at 0.2% of GDP (Eurostat, 2024[36]). Climate change and the related extreme weather events could also have a significant negative fiscal impact, although mitigated by the ongoing build-up of fiscal buffers (see below).

The government plans to achieve primary budget surpluses of 2.4% of GDP in 2024, 2.5% in 2025, and 2.4% in 2026 and to lower the headline deficit further to 0.6% of GDP in 2025 and 0.8% in 2026. This is to be achieved on the back of robust economic growth and through the phase-out of emergency support

measures and the containment of public spending, despite a planned increase in defence expenditures (Hellenic Republic, 2024[37]). At the same time, grants from the Recovery and Resilience Facility are set to provide yearly funding of 1.5% of GDP in 2024, 2.0% in 2025 and 2.7% in 2026, which will support the economy (Box 1.2). Reaching these targets would help Greece to maintain fiscal credibility and lower its funding costs. However, this strategy needs to contain escape clauses and allow the work of automatic stabilisers to avoid that maintaining targets despite slower growth leads to a pro-cyclical fiscal stance. This would be in line with the new EU fiscal rules which aim to provide more scope for countercyclical fiscal policy.

## Figure 1.14. The budget position is projected to improve in the short term




Source: OECD (2024), OECD Economic Outlook: Statistics and Projections (database); Main Economic Indicators (database).

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Both sustained strong growth and sustained primary surpluses are needed to continue to reduce the debt-to-GDP ratio over the long term. From the late 2020s, an ageing workforce and the effects of the green transition will act as a drag on growth and on public finances (OECD, 2023[6]). However, ongoing policy efforts are set to limit the impact of demographic changes on public finances. Recent 2016 and 2020 reforms have raised the minimum and statutory retirement ages, reduced early retirement options, and established an automatic one-to-one link between them and life expectancy, as discussed in the *2023 Economic Survey of Greece* (de Tavernier and Boulhol, 2021[38]; NAA, 2023[39]). The effective retirement

age is set to increase by a full year over the coming decade and more than three years until 2060, while gross replacement rates would remain among the highest in the European Union (EC, 2024[3]). This is expected to lead to a large decrease in public pension expenditure by approximately 2.5% of GDP. Since 2022, new labour market entrants have also been enrolled in a new defined-contribution scheme, the Hellenic Auxiliary Pensions Defined Contributions Fund (TEKA), replacing the existing notional defined-contribution scheme for mandatory auxiliary pensions. This will reduce the impact of long-term demographic pressures, despite transitional costs.

According to the baseline scenario of the European Commission's Ageing report, ageing-related expenditures are set to decline by 0.8% of GDP by 2030 in contrast to the European average country (Table 1.5) (EC, 2024[3]). This projected long-term decline of ageing-related costs is subject to significant risks and ageing costs may well turn out higher than expected (Table 1.5). The foreseen decrease in pension expenditures will need to be supported by improving employment opportunities for older workers so that workers can actually remain active for longer. Although rising and supported by improved tax incentives for pensioners who chose to continue to work in January 2024, the employment rate of the 55–64-year-olds remains 9 percentage points below the OECD average in early 2024, reducing contribution periods and pension rights.

## Table 1.5. Ageing-related spending is projected to decrease in Greece

As a percentage of GDP unless otherwise indicated

| | 2024 | 2027 | 2030 | 2040 | 2050 | 2060 | 2070 |
|---|---|---|---|---|---|---|---|
| Public pensions expenditure, gross[1] | 13.4 | 12.8 | 12.7 | 13.7 | 14.0 | 12.7 | 12.0 |
| of which: | | | | | | | |
| Old-age and early pensions | 9.9 | 9.5 | 9.5 | 10.6 | 11.2 | 10.1 | 9.8 |
| Disability pensions | 0.8 | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 |
| Survivors pensions | 2.2 | 2.2 | 2.2 | 2.2 | 2.0 | 1.8 | 1.5 |
| Other pensions | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Public spending on healthcare[2] | 5.2 | 5.3 | 5.4 | 5.8 | 6.0 | 6.1 | 5.9 |
| Public spending on long-term care[2] | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 |
| Education | 3.2 | 3.1 | 3.0 | 2.9 | 3.1 | 3.0 | 2.9 |
| **Total ageing-related spending** | **22.0** | **21.3** | **21.2** | **22.5** | **23.3** | **21.9** | **21.0** |
| **Risk scenario: Possible additional spending on healthcare and long-term care [3]** | **0.1** | **0.2** | **0.3** | **0.7** | **1.2** | **2.2** | **4.1** |
| *Old-age dependency ratio (20-64)* | *40.4* | *43.1* | *46.0* | *60.6* | *74.4* | *72.1* | *66.0* |
| *Life expectancy at 65[4]* | *20.7* | *21.0* | *21.3* | *22.4* | *23.4* | *24.4* | *25.3* |
| **Total ageing-related spending European average** | **24.3** | **24.5** | **24.6** | **25.2** | **25.5** | **25.5** | **25.6** |

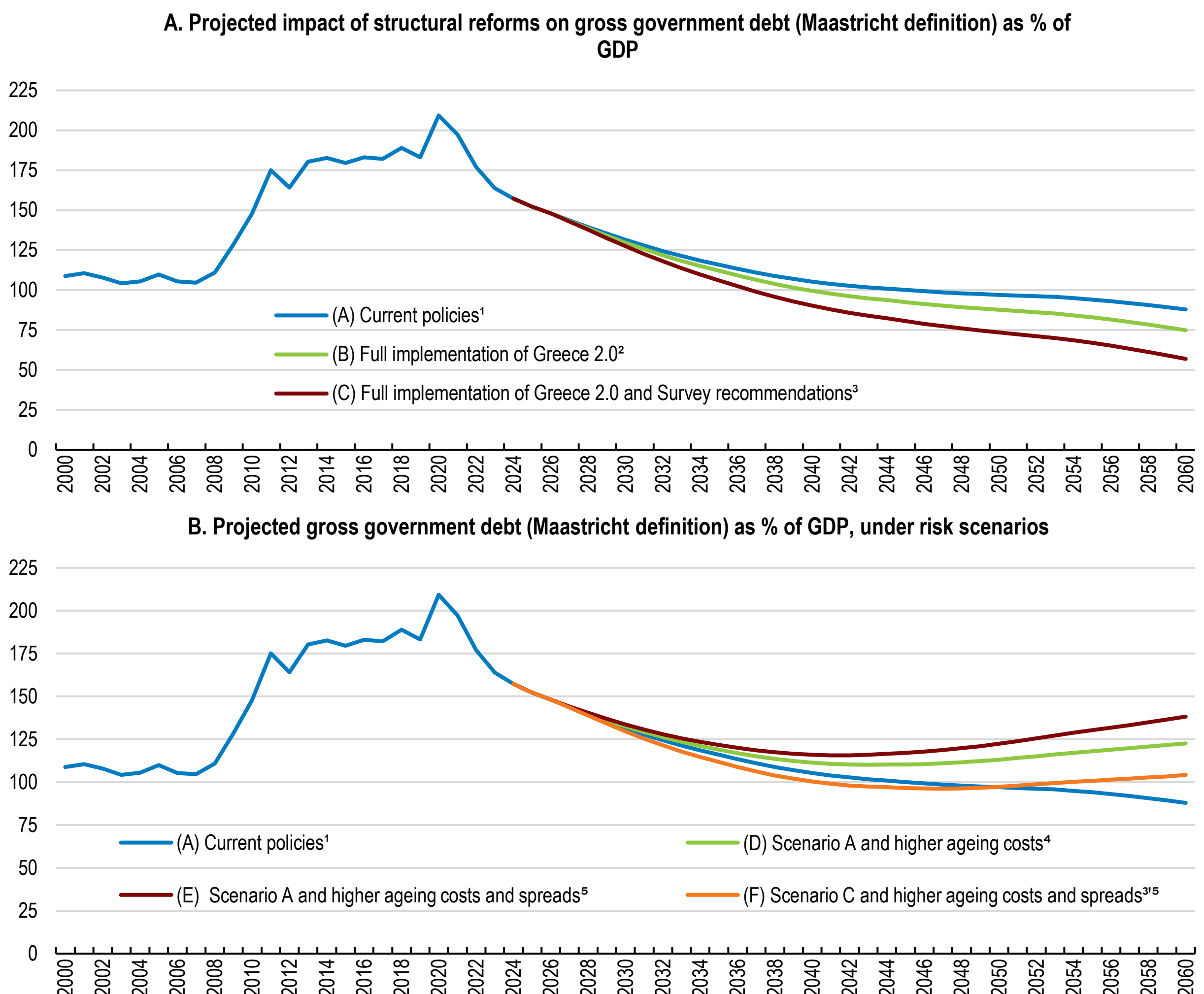
Note: 1. AWG baseline scenario, 2. AWG Reference scenario. 3. The European Commission's risk scenario assumes an upward convergence of coverage and costs profiles towards European Union averages for long-term care, as well as a partial continuation of recently observed upward trends in health care expenditure. 4. Average of men and women's life expectancy.

Source: EC (2024), The 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070).

Moreover, health spending could also increase faster than expected with population ageing, as Greece spends less than half the EU average on health. Unmet needs and out-of-pocket expenditures are high (OECD, 2023[40]). In addition, the EU Ageing report projections foresee a stable and very low level of public spending on long-term care at 0.1% of GDP, while the average public spending on long-term care reached close to 1.8% of GDP in OECD countries in 2021 (OECD, 2023[41]). The current publicly funded long-term care programmes are a good distance away from providing high-quality care to all those in need, and the main burden of care continues to fall on family carers, a disproportionate share of whom are women (OECD, 2024[42]; 2023[41]). Greece's forthcoming Action Plan, supported by the OECD, will have to improve access to affordable and high-quality long-term care, which may lead to further spending needs.

Public debt is projected to decline further relative to GDP over the next decades, provided that none of these or other risks materialise and that current policies are pursued as planned, including the ongoing reform programme. In the baseline scenario, the debt-to-GDP ratio will fall below 90% by 2060 (Figure 1.15, Panel A, Scenario A). This baseline scenario assumes a primary surplus of 2.0% of GDP in 2027 and that the primary surplus then evolves in line with ageing-related spending in Table 1.5, as well as a continuation of the current low debt service costs linked to the high share of official lending and Greece's recent rating upgrade to investment grade.

### Figure 1.15. Structural reforms are needed to keep public debt on a declining path




1. The "current policies" scenario assume that real GDP and the GDP deflator rise by 1.7% and 2.0% annually from 2027. The budget primary balance is projected to be constant at 2.0% of GDP before adding the changes in ageing costs in Table 1.5. Long-term risk-free interest rates are projected to increase to 3.4% from 2030; interest rates on official debt are expected to remain at 1.4%, and spreads remain constant at 93 basis points. 2. The "full implementation of Greece 2.0" scenario assumes higher GDP growth as in Table 1.10, as well as a higher primary balance by 0.3% of GDP due to measures to increase digital transactions and improve tax compliance. 3. The "full implementation of Greece 2.0 and Survey recommendations" scenario assumes higher GDP growth as in Table 1.10, as well as a higher primary balance as in Table 1.6. 4. The "Higher ageing costs" risk scenarios include the full impact of the additional spending due to health and long-term care in the European Commission's risk scenario (Table 1.5). 5. The "Higher spreads" scenario assumes that spreads increase to 143 basis points from 2027.
Source: Simulations based on the OECD's Global Long-Term Model, EC (2024), The 2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022-2070), Eurostat population projection scenarios, and OECD Economic Outlook 116 (database).

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Stronger growth could support further declines in the public debt-to-GDP ratio, for example if the planned Greece 2.0 reforms are fully implemented (Figure 1.15, Panel A, Scenario B). In this case, debt would decline below 75% of GDP by 2060. If these reforms were combined with a full implementation of this Survey's policy recommendations to boost investment and growth beyond the Greece 2.0 reforms (Box 1.3 and Table 1.10), debt could decline to as low as 57% of GDP by 2060 (Figure 1.15,Panel A, Scenario C).

The public debt trajectory could be subject to significant deviations from the baseline scenario in the case that some of the aforementioned fiscal risks materialise. If ageing-related spending on health and long-term care were to increase by more than currently projected (Table 1.5), public debt would fall more slowly and could start to increase again after 2040, exceeding 120% of GDP by 2060 (Figure 1.15, Panel B, Risk scenario D). If on top of that, spreads on Greek government debt were to increase again, the rebound in debt levels would be even stronger (Figure 1.15, Panel B, Risk scenario E).

Only strong structural reform momentum would be able to prevent a resurgence of public debt in the case of these fiscal risks. Implementing this Survey's policy recommendations to boost investment and growth beyond the Greece 2.0 (Table 1.10), as depicted in Figure 1.15, Panel A, Scenario C, would keep public debt on a firmly declining path even in the case of higher ageing-related spending and higher spreads (Figure 1.15,Panel B, Scenario F). Although clouded by significant uncertainty, these debt simulations appear broadly in line with recent analyses by the European Commission and the IMF (EC, 2024[22]; IMF, 2024[11]).

## Box 1.3. The proposed reform and investment programme would improve the budget balance

Table 1.6 presents illustrative estimates of the fiscal effects of the recommended reform package, allowing for limited behavioural responses. Most reforms are also assessed for their long-term GDP effects in Table 1.10. Reforms with minor fiscal impacts are not presented.

### Table 1.6. Illustrative fiscal impact of OECD-recommended reforms

| Fiscal savings (+) and outlays (-)[1], % of current GDP[1] | 2025 | 2030 | 2040 | 2050 | 2060 |
|---|---|---|---|---|---|
| Introduce an emission tax price floor or EUR 120/tCO2[2] | 1.0 | 0.8 | 0.5 | 0.0 | 0.0 |
| Progressively phase out fossil fuel subsidies | 0.1 | 0.3 | 0.3 | 0.0 | 0.0 |
| Invest in transport infrastructure for net-zero emissions[2] | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 |
| Increased financial support for building renovation[2] | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 |
| Investment in renewable energies[2] | -1.5 | -0.6 | -0.4 | 0.0 | 0.0 |
| Raise active labour market and training spending to OECD average | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 |
| Raise education spending | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 |
| Increase in-kind childcare support | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| Reduce family cash benefits, including birth grants and periodic non-contributory benefits | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Revenue gain from more consistent rates, improved compliance and broader coverage[3] | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Reduce the labour tax wedge | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 |
| Increase spending efficiency | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Overall budget impact of recommended reform package** | **0.2** | **1.0** | **0.9** | **0.7** | **0.7** |

Note: 1. Only measures with significant ongoing fiscal implications included. 2. Costs of measures supporting the green transition are developed in (OECD, 2023[6]). 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. 4. Additional expenditure to increase education quality and access to lifelong education and skill training gradually brings Greece's spending up to the OECD average.
Source: OECD calculations.

## Table 1.7. Past OECD recommendations on fiscal sustainability

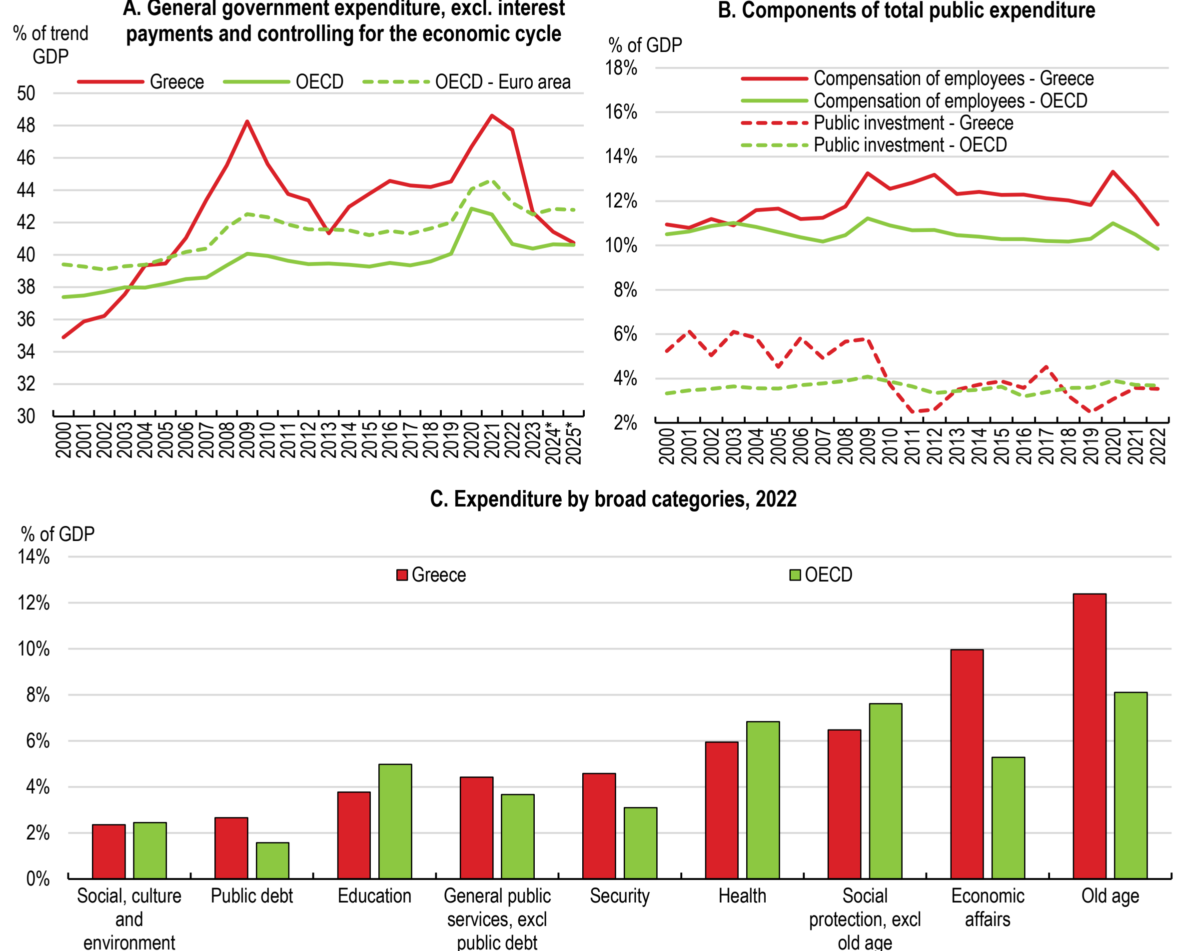
| Past Recommendations | Actions taken since 2023 |
|---|---|
| Return the primary budget balance to surplus from 2023 and maintain thereafter a primary budget surplus of at least 1.5% to 2% of GDP. | The primary surplus reached 1.5% of GDP in 2023 and it is projected to reach 2.4% in 2024 and in 2025 and 2026. |
| 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. | Fiscal support related to high energy prices has been withdrawn in 2023-24. |

### *Strengthening the efficiency of public spending*

#### *Creating fiscal space for public investment, education and health*

Public spending as a share of GDP has declined in recent years, approaching the OECD average (Figure 1.16, Panel A). It remains elevated reflecting a comparatively high public sector wage bill, high spending on public pensions, and the still high debt burden (Panels B and C). Spending on pensions and debt is expected to diminish significantly over time (see above), which will create some fiscal space. However, high spending needs will persist in areas that support growth and well-being such as public investment, education, and health (Panel C).

## Figure 1.16. Shifting public spending towards areas supporting growth and equity is a challenge




Note: *OECD projections. Panel C: data for 2022 except for COL and CRI (2021).
Source: OECD database, OECD National Accounts.

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Public investment as a share of GDP has been increasing since 2019, following a sharp decline with the onset of the Great Recession and now supported by projects funded by the Recovery and Resilience Plan (Figure 1.16, Panel B). As the Recovery and Resilience plan will end in 2026, more domestic resources will be needed to maintain high rates of public investment. Increasing spending on education towards the OECD average and ensuring an effective use of these resources can improve relatively weak educational outcomes (see below). Many health outcomes are solid, despite rapidly declining public spending on health during the crisis. Part of this decline in public healthcare spending rests on high out-of-pocket payments which restrict access to healthcare for lower-income households (OECD, 2023[43]; Pissarides et al., 2023[44]; OECD, 2023[6]). As the population ages in the longer term, there may be a need to raise public health expenditures.

Using public resources more effectively would help to raise public expenditures with a high-growth payoff. Potential to reallocate spending include phasing out fossil-fuel subsidies, which amounted to 0.8% of GDP in 2023, while expanding support for renovations and electric vehicles (Section 1.5). Family policies could be made more effective by reducing birth grants while improving access to early childcare (Section 1.4). Social policies could make more out of current resources by replacing blanket VAT exemptions with targeted support to vulnerable groups (see below). In addition, the *2023 Economic Survey* discusses several avenues for improving spending quality, including through performance budgeting, green budgeting, and more coordinated public procurement. The 2023 Survey also recommends measures to enhance public sector capacity, including the timely disbursement and use of EU funds, for example by drawing on the experience of dedicated project delivery units for “Greece 2.0” to streamline project management and monitoring (Table 1.8 and Table 1.12). Further digitalisation and improved public sector human resource management (discussed below) would also raise public spending efficiency.

## Table 1.8. Past OECD recommendations on public sector efficiency

| Past Recommendations | Actions taken since 2023 |
|---|---|
| Swiftly implement public investment management reforms, prioritising staff training and developing centres of skills.<br>Prepare to expand domestic funding of public investment once the current EU funding programmes complete. | The Recovery and Resilience Plan includes training for 250 000 civil servants, and digital training projects are currently being designed. |
| Develop line ministries’ capacity to access, adapt and analyse performance information.<br>Develop and present a medium-term perspective of spending trends and implications of policy measures. | A new objective-setting and performance management system has been put in place in 2023, directly linked to policy priorities. |
| Avoid growth in overall public servant numbers by promoting reallocation of staff to areas short of resources.<br>Strengthen public service recruitment, ensuring the process is responsive to different agencies’ skill needs and the growing competition for skills.<br>Consolidate fragmented activities, such as public procurement, into dedicated agencies with deeper capacity.<br>Develop and require the use of framework agreements for common public procurements. | The total number of civil servants declined by 1.1% since 2022, supported by a rule limiting hirings to the number of departures. |
| Pursue digitalisation and administrative simplification across the public sector, prioritising work process reforms and raising skills. | Measures include the expansion of www.gov.gr as a single point of access for all digital government services and of digital government IDs; the development of a publicly accessible register of procedures, including information on point of service, time, cost and required documents for completing the procedures; the rolling out of government-wide data interoperability; and the migration of relevant data to public cloud. |

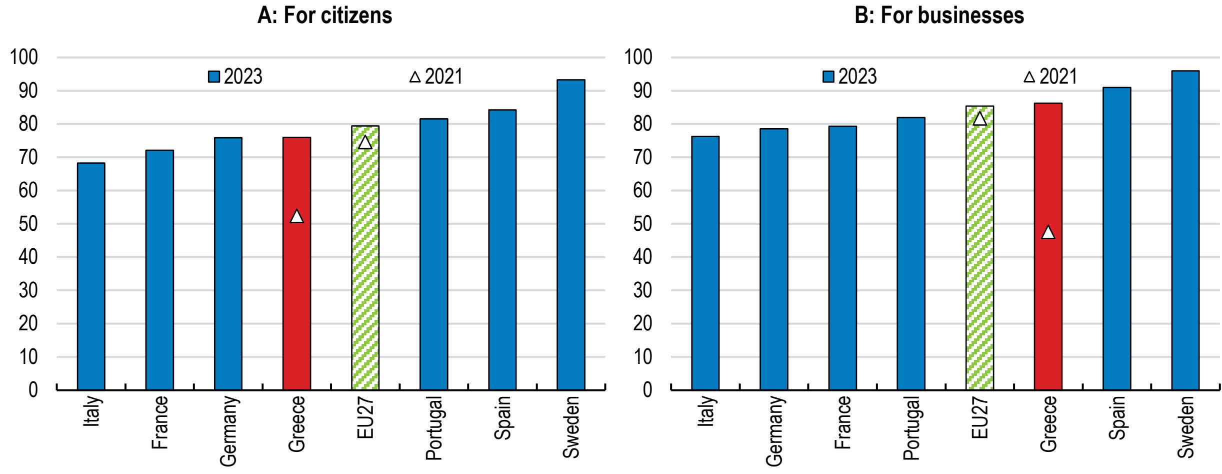
*Promoting public-sector digitalisation*

Greece has made the digitalisation of its public sector a priority. In 2019, it created the Ministry of Digital Governance (MDG) to lead Greece's digital transformation, including for its public sector, and facilitate coordination across relevant actors. Greece's ambitious plans for digitalising public services by 2025 are laid out in its Digital Transformation Book (Box 1.4).

The ongoing implementation of these plans, which go hand-in-hand with reviewing and simplifying processes, is supporting public-sector efficiency and reducing administrative and compliance costs for people and businesses. According to the European Commission's Digital Economy and Society Index (DESI), Greece achieved the largest increase in digitalising public services from 2021 to 2023 among EU countries, and public services available online for citizens and businesses are now close to the EU average (Figure 1.17, Panel A and B) (EC, 2024[45]). Examples of digitalised and simplified public services include tax audits, online applications for licences for renewable energy projects, and the gov.gr wallet (Box 1.5). Additional efforts, such as improvements in the digital infrastructure among public bodies with the SYZEFXIS II project and more widespread use of e-filing in the judicial system are meant to render public services, including digitalised ones, more efficient.

## Figure 1.17. Public sector digitalisation progressed rapidly

Digital public services score (0 to 100)




Note: Panel A: The share of administrative steps that can be done online for major life events (birth of a child, new residence, etc.) for citizens; Panel B: The indicator reflects the share of public services needed for starting a business and conducting regular business operations that are available online for domestic as well as foreign users. Services provided through a portal receive a higher score, services which provide only information (but have to be completed offline) receive a more limited score.
Source: EC Digital Decade DESI: Indicators (2024).

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These achievements notwithstanding, OECD analysis points to several challenges in achieving the digital transformation of the public sector (OECD, 2022[46]). In particular, there is room for better coordination among relevant stakeholders. This would entail clarifying responsibilities across all stages of project implementation within and outside the MDG, and harmonising data collection and defining data ownership to avoid duplicating efforts. Project planning is also challenged by the co-existence of parallel processes varying according to their funding source (OECD, 2022[46]). Establishing a project management office in charge of approving and monitoring digital projects and facilitating progress in case of delays, as done for example in New Zealand, could help improve coordination (OECD, 2022[46]; Artto, 2011[47]).

Several features of the procurement system contribute to lengthy processes and delays. These include legal challenges that increase the risk of lock-ins for digital and ICT projects (OECD, 2022[46]). Overly

prescriptive technical specifications, a general tendency towards issuing a small number of large contracts, and a sometimes overly narrow focus on price criteria are making it more difficult for smaller, more agile and innovative suppliers to compete, while increasing incentives for litigation. The use of procurement procedures adapted to digital solutions – such as Dynamic Purchasing Systems and Public Procurement of Innovation remains limited, contrasting for example with positive experiences made in Denmark (SKI, 2024[48]).

### Box 1.4. Greece's Digital Transformation Book 2020-2025

The Digital Transformation Book (DTB) is a strategic roadmap for the digital transformation of Greece's economy, society and public sector. It provides guiding principles and specific actions, including dedicated initiatives to transform service design and delivery in policy areas such as health, education, justice, economy, and environment. The DTB identifies several cross-cutting blocks to reduce implementation costs and provide users of different services with common platforms. These include:

- The ***digital service delivery platform GOV.GR***, providing a single access point for all digitally-enabled public services in Greece. This is complemented by the development of other common public digital goods, such as digital identity and digital notification systems. Over 1500 services are provided through this platform and several new services including interoperability with smartphone apps is envisaged.
- The adoption of a data-driven public sector approach, which includes ***the development of base registries as well as interoperability systems*** to secure integrity and availability of data on citizens and legal entities. This builds on the development of a national data strategy in order to establish a data governance framework, further promote data value-creation and the security and personal data protection.
- Further ***promotion of open government data.*** The DTB presents a scalable approach to open up public data based on potential value-added and policy priorities. The DTB sets specific goals and objectives in terms of the strengthening of the open data portal, the development of a thematic data repository and fostering open science in Greece. These approaches intend to leverage value creation through collaboration and reuse of data, e.g. for the use in apps.

Source: (OECD, 2022[46]).

Procurement processes are fragmented across different parts of the Ministry of Digital Governance, while procurement capacities vary. Consolidating responsibilities and advancing the use of procurement procedures adapted to the specificities of digital projects could accelerate project implementation. A lack of digital and ICT skills has been constraining project development and implementation. Limited managerial and technical capacities within line ministries are reported to have led to an overload in the Ministry of Digital Governance and user research processes to inform the planning of ICT and digital projects has been rare (OECD, 2022[46]). While ongoing digital training for the public sector, such as the Operational Programme «Digital Transformation 2021-2027» are welcome (see Table 1.8), further measures discussed below would help to bolster public sector capacities.

## Box 1.5. The Gov.gr Wallet

The Gov.gr Wallet is a digital wallet app allowing citizens to issue, store, and use a digital ID as well as other personal information, including a digital driving licence, official disability card, unemployment card, and vehicle information card. The app was launched in 2022. The digital ID is applicable for all domestic uses, e.g. for travel, identification at courts, loan applications, or for police identification. It can also be used to identify for entry to restricted areas, such as stadiums, or for check-in with participating airlines.

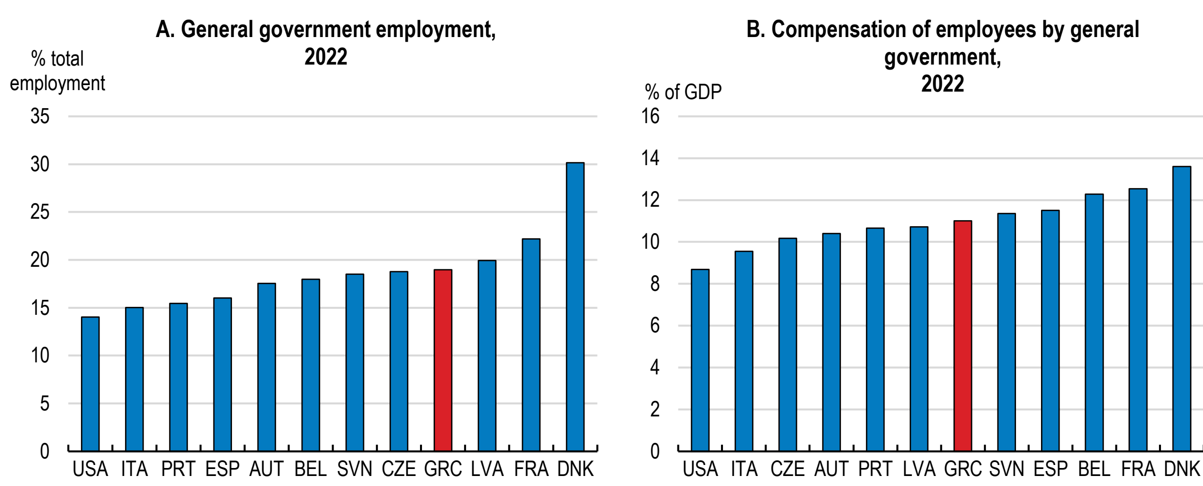
The wallet app facilitates data ownership and control and assures the security of transactions through end-to-end encryption (E2EE) and other technologies. For example, identification at a bank implies sharing the personal ID number with the bank to receive a push notification, which serves to approve the delivery of an official digital copy of the citizen's ID data to the bank.

Source: https://wallet.gov.gr; https://en.about.aegeanair.com/media-center/press-releases/2023/aegean_digital_service.

*Mobilising capacities among the public-sector workforce*

Greece's public administration has undergone substantial changes over the previous decade. Reforms notably reduced the number of civil servants and the public-sector wage bill (Nikitas and Vasilopoulou, 2022[49]), which helped to better align the characteristics of Greece's public-sector workforce with other OECD countries. Relative to the size of its economy, Greece now has fewer civil servants, and the related financial resources are comparable to those of other OECD countries (Figure 1.18). The latest available data also indicate that Greece has many highly educated civil servants, though their share of total public sector employment is somewhat lower compared to other OECD countries (World Bank, 2024[50]).

### Figure 1.18. Greece devotes significant resources to its public-sector workforce




Source: OECD National accounts (2024).

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Attracting and motivating talented civil servants will be key to enhance public sector capacities. Reforms from 2011 until 2015 aimed at simplifying its structure and reducing fiscal costs while linking wages to performance, but also contributed to the compression of the civil service pay structure (Nikitas and Vasilopoulou, 2022[49]). This can make it difficult to offer competitive wages for workers with skills in high demand. Attracting and retaining specialised staff has in fact proven challenging in recent years, and a lack of technical and operational skills, including the capacity to analyse big data from administrative databases, has hampered progress in public sector digitalisation (Spinellis et al., 2022[51]; EC, 2023[52]).

The latest reform of the civil service pay scale became effective in 2024 and one of its objectives has been to attract more highly qualified staff (Hellenic Republic, 2023[8]; Hellenic Republic, 2023[33]).

Continuous efforts aim at improving human resource management of Greece's public workforce. For example, reforms have introduced performance assessments and mobility schemes (Nikitas and Vasilopoulou, 2022[49]; EC, 2023[52]). A bonus system has been introduced for civil servants involved in implementing ministries' annual action plans, projects included in the Recovery and Resilience Plan "Greece 2.0", or the achievement of fiscal goals, and this system is set to be expanded. The *2023 Economic Survey of Greece* discusses recent reforms affecting the public-sector recruitment process.

Despite these reform efforts and the still sizeable resources devoted to Greece's civil service, government effectiveness appears low, even when compared to countries with a similar public-sector workforce and wage bill – such as Spain, Slovenia, Austria or Portugal (Figure 1.18) (EC, 2023[52]; EC, 2023[53]; World Bank, 2022[54]). As discussed in several places in this survey, capacity shortages for effective public service delivery plague a number of key areas including the public employment service, energy regulators, or the National Transparency Authority. There may be a case for reallocating civil servants to these areas. At the same time, there may even be a case for reallocating staff resources within broad areas. For example, in healthcare Greece has comparatively many doctors but few nurses, while in the judicial system a comparatively high number of judges is supported by few judicial clerks (EC, 2023[55]; OECD, 2023[43]). Overall, the comparatively weak public sector performance and frequent capacity constraints despite similar overall resources as in other countries suggests potential to use public sector staff resources more effectively.

Ongoing reforms can improve the allocation of staff across the public sector. Greece's comprehensive human resources management system (HRMS), whose development began during its adjustment programme, is expected to be finalised by 2024 (Nikitas and Vasilopoulou, 2022[49]). This will include completing information on civil servants and job descriptions to better identify staff shortages and improve matching. More experience with performance budgeting and improving data collection will put authorities in a better position to decide where staff is most effective. Greece has been including performance data for all central government bodies since its 2022 budget, while many OECD countries have found implementing full performance-based budgeting to be challenging (OECD, 2019[56]). Job matching within the public sector will also be advanced by the recently expanded Coordination Directorates. Previous assessments showcased grade inflation, with often all employees being rated as high. Greece is currently introducing objective setting which can help to make assessments more informative (EC, 2023[53]; Pissarides et al., 2023[44]).

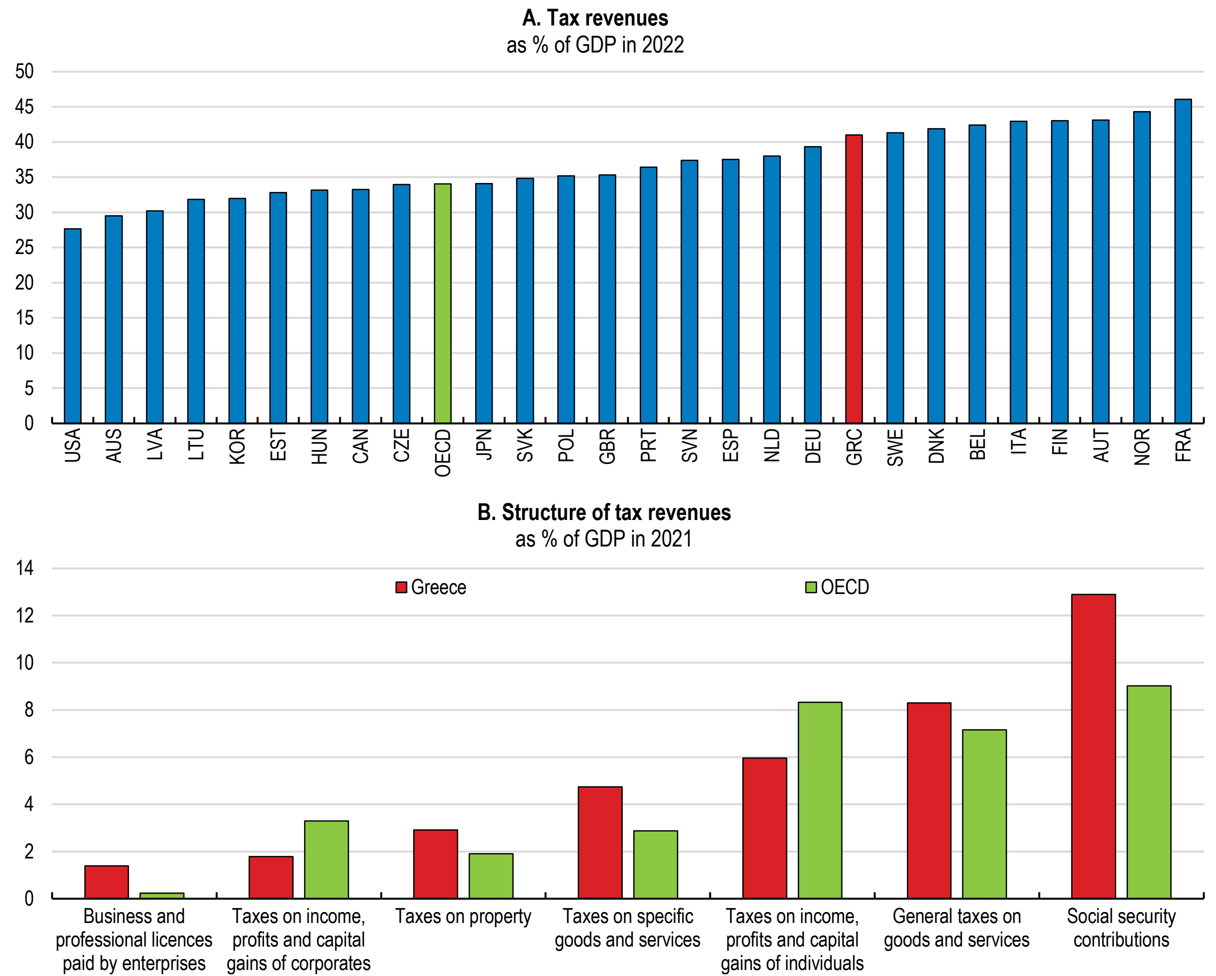
Strengthening internal mobility would complement efforts to improve staff allocation within the public sector. While previous reforms removed obstacles to internal mobility, Greece is among many OECD countries where internal mobility of civil servants, including at the senior-level, is neither explicitly encouraged nor expected (OECD, 2023[57]). Rewarding mobility, by formally recognising experience at different public bodies as an advantage for applications or as part of performance assessments, could help to foster an internal job market that helps to channel staff to where they are most productive. Greece could also consider setting time-limits for senior-level civil servants in their current ministry, as done for example at the European Commission. This would further encourage mobility and motivate civil servants by enhancing career opportunities for capable candidates (Pissarides et al., 2023[44]) and could build on ongoing efforts to analyse staffing needs for the different public bodies and agencies.

### *Making taxes more effective*

The revenue side of government accounts also presents opportunities for improvements. Revising the tax composition can foster economic growth by reducing taxes that are more harmful to growth and inclusiveness (Johansson et al., 2008[58]; Brys et al., 2016[59]). Tax revenue has increased from 33.4% of GDP in 2000 to 41% in 2022, above the OECD average (OECD, 2023[60]) (Figure 1.19, Panel A). Some

elements of Greece's tax system are already well-aligned with growth and other objectives. For example, following recent reforms Greece generates a comparatively large share of its revenues from taxes on immovable property, which support equity and growth. However, despite reductions in recent years, the tax burden on labour remains high, notably social security contributions (Panel B). Further reducing the still relatively large labour income tax wedge could raise employment and career progression, while lowering incentives for self-employment (OECD, 2021[61]). At the same time, the need of meeting fiscal targets and bridging the investment gap will determine the pace at which such measures could be implemented. Broadening tax bases, by strengthening tax compliance and evaluating the numerous tax expenditures, is another key avenue to raise revenues and reduce high statutory tax rates.

## Figure 1.19. Greece's tax burden is high and the tax mix can be improved




Note: In panel A, data is from 2022 except for Australia and Japan (2021). General taxes on goods and services include Value Added Taxes and sales taxes. Taxes on specific goods and services include excises.
Source: OECD Global Revenue Statistics Database (2024).

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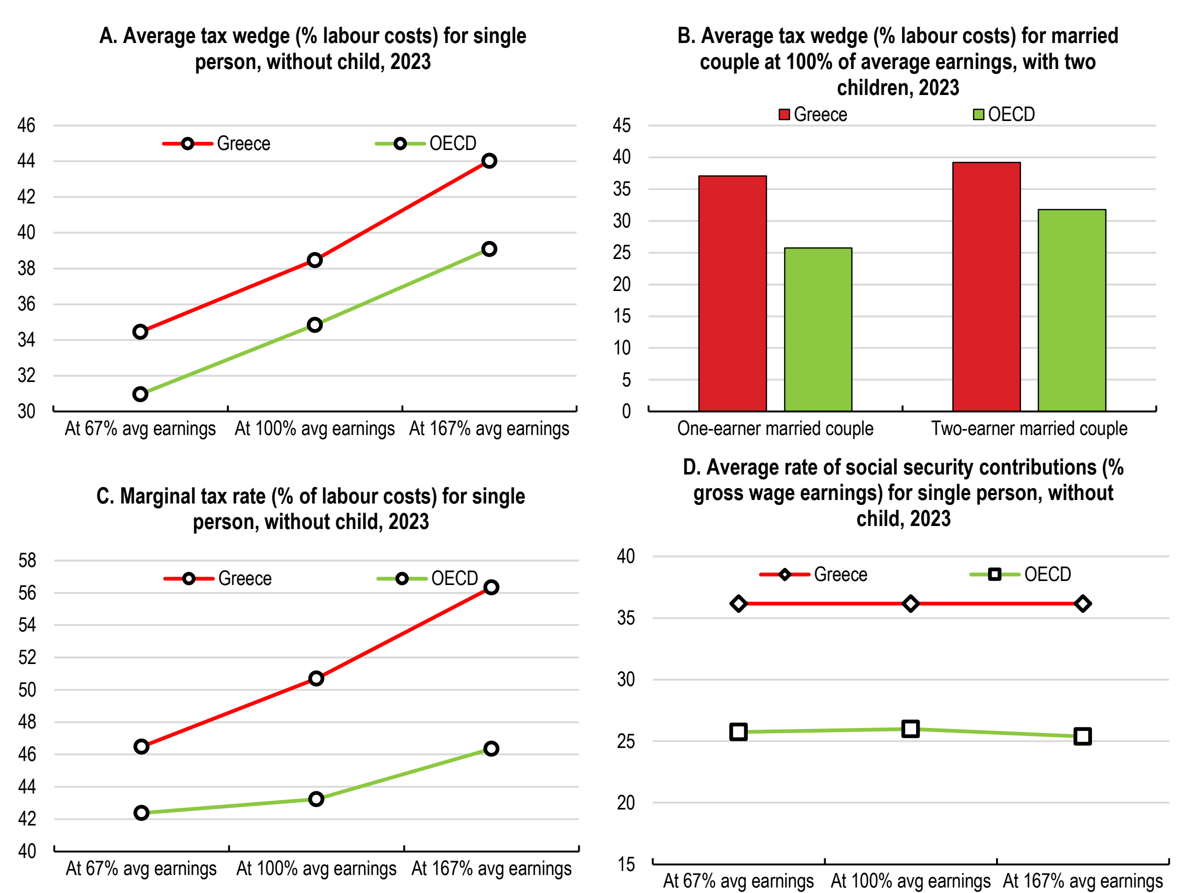
### *Further reducing taxes on labour*

Reducing further the tax burden on labour, especially at low incomes, would support investments in skills and improve equity. The combination of a still large tax wedge and high marginal tax rates weighs on labour participation, reduces incentives for workers to invest in human capital, e.g. through training, and

makes it more expensive for firms to hire additional workers (Figure 1.20) (OECD, 2018[62]; OECD, 2021[61]). Since 2020, Greece has reduced the tax burden on labour by lowering social security contributions by three percentage points and abolishing the special contribution of 1% for all employees of the public sector, in addition to reducing the personal income tax for low-income earners. Reductions in social security contributions were entirely untargeted, while the experience of other OECD countries, such as France, suggests that such reductions are most effective when targeted towards low-income earners (L'Horty, Martin and Mayer, 2019[63]).

A more progressive taxation of labour income could also foster both the supply of and the demand for skills. One possible reform option could include reducing the high basic allowance in personal income taxes, which is the income threshold from which personal income taxes are due, while simultaneously reducing social security contributions on low incomes. The basic allowance of EUR 10 000 corresponded to 61% of average annual wage earnings in 2022, effectively exempting half of Greek households from personal income taxes (Hellenic Republic, 2023[64]). This narrow base is one of the reasons why Greece raises less personal income tax revenues than other countries, despite higher tax rates above the basic allowance (Figure 1.21). Moreover, in 2024 the government raised the basic allowance for taxpayers with children by another EUR 1000 (Hellenic Republic, 2023[33]).

## Figure 1.20. Social security contributions impose a high tax burden on labour




Note: Panel D: Sum of employers' and employee's social security contributions.
Source: OECD Tax Database.

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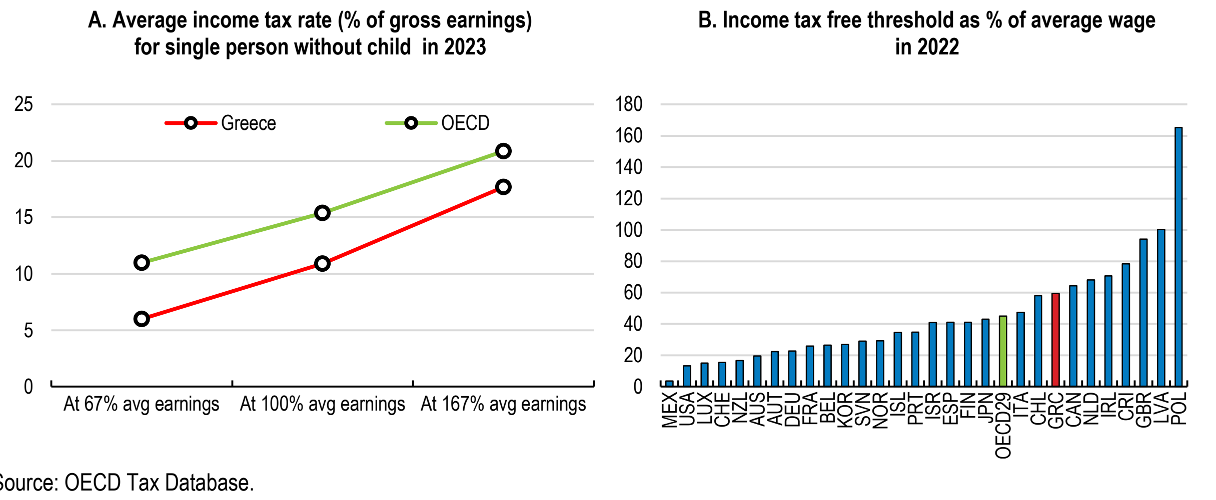
Reducing the high tax burden on labour would also help to make the tax system more neutral with respect to different sources of income (Brys et al., 2016[65]; Pissarides et al., 2023[44]). Recent OECD analysis finds

that for higher income levels Greece's difference in effective tax rates between wage and capital income is the highest among OECD countries (Hourani et al., 2023[66]). Differences in tax rates by income source can make it beneficial for self-employed workers with higher incomes, notably liberal professionals, to incorporate their business. While incorporation can be advantageous for some, for example to protect personal assets when taking business risks, it incurs additional costs in terms of higher administrative burdens and for compliance. Treating income sources differently can thus encourage businesses to choose legal forms which would be considered too burdensome in the absence of tax advantages.

## Figure 1.21. Personal income tax rates are low and exemptions are widespread




Source: OECD Tax Database.

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### *Broadening tax bases*

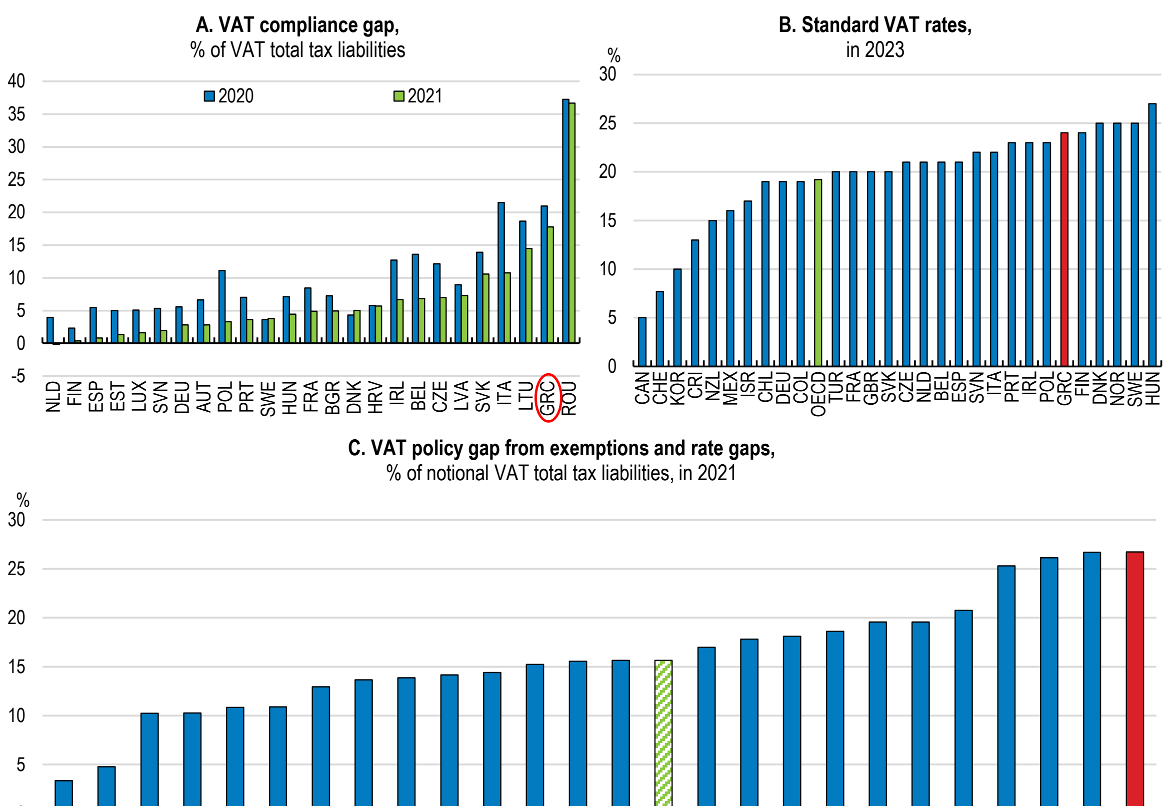
The medium-term fiscal strategy should also include a revision of special provisions in the tax system. Previous Economic Surveys pointed to the need to simplify the tax system by reducing the use of tax expenditures including tax allowances, credits, exemptions and reduced tax rates. These make the tax system complex and less transparent and some of them may undermine sustainability objectives (OECD, 2023[6]; 2020[67]). Tax expenditures appear relatively high in international comparison, accounting for 6.6% of GDP in 2021 (Redonda, von Haldenwang and Aliu, 2024[68]). This notably includes fossil fuel subsidies (see below), tax allowances for pensioners, personal and family allowances for the personal income tax which cover for example medical care and professional expenses, tax exemptions on capital income, as well as special value added tax provisions (Ministry of Finance, 2023[69]). Greece provides information on direct subsidies as well as tax expenditures in annual tax expenditures report as part of its budget plan. However, these measures are not subject to regular evaluations. Belgium and Portugal, for example, have had positive experiences with establishing dedicated units for monitoring tax benefits and assess their effects with public reports. Mimicking this could provide useful guidance for future tax reforms in Greece.

Significant scope exists to improve the design of the value added tax (VAT). Though the VAT compliance gap has narrowed, it remains among the highest in the EU (Figure 1.22, Panel A) (EC, 2023[70]). The improving but still low level of compliance continues to limit revenues despite high tax rates on consumption: In 2022, Greece imposed the 7$^{th}$ highest standard VAT rate across OECD countries (Panel B), while the contribution of VAT to public revenues was on par with the OECD average (Chapter 2).

Continuing the government's efforts to make tax compliance easier can boost collection and improve the business environment. The government has made combatting tax evasion a priority (Hellenic Republic, 2023[8]). Greece is implementing incentives for a wider use of electronic transactions, notably for VAT, and improving information flows to better track and monitor payments. The ongoing codification of tax laws and

measures to simplify procedures and interactions with the tax authorities can improve compliance and ease burdens on businesses. Other recent measures include making electronic payments mandatory for real estate transactions; allowing deductions from taxable income for up to EUR 5000 per year for selected expenditures that are paid electronically; facilitating the issuance and monitoring of electronic consignment notes for moving goods within Greece; improving the interconnection of information systems among businesses and the revenue authority so that information from cash registers and electronic payments is transmitted to tax authorities in real time and digitalising tax audits. Building on these measures to further promote digital transactions, limit cash transactions, and rationalise tax expenditures wouldcomplement capacity improvements within the revenue authority.

### Figure 1.22. Low compliance and tax expenditures limit VAT revenues despite a high rate




Note: Shows actionable VAT policy gap as the difference between revenues from applying a uniform VAT rate and total tax liabilities, excluding services and notional values that are unlikely to be taxed, provision of public goods and services, and financial services.
Source: Panel A: OECD (2022); Panel B and C: EC (2023).

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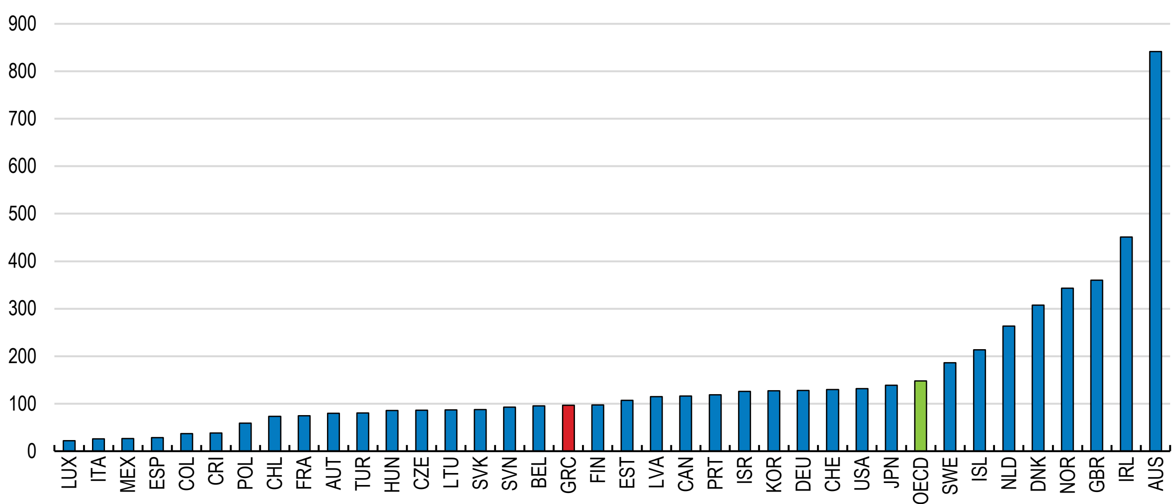
The effectiveness of the value added tax (VAT) remains also hampered by a wide range of goods and services that are exempt or taxed at reduced rates. The actionable VAT policy gap – i.e. the difference between revenues from applying a uniform VAT rate on taxable goods and total VAT tax liabilities – was the highest among EU countries in 2021 (Figure 1.22, Panel C). Reduced rates cover basic food stuff, cultural goods like books and newspapers, medicine, tourist accommodation, electric heating and natural gas (Hellenic Republic, 2024[16]). At the beginning of the pandemic, Greece also introduced temporary reductions for taxi services, restaurants, gyms, swimming pools, and dance studios (EC, 2023[70]). To support the construction sector, VAT has been suspended on new buildings until the end of 2024 (Hellenic Republic, 2023[8]).

The objective of reduced rates, especially for essential goods, is to make the VAT more progressive and reduce income inequality by offering a larger benefit to low-income groups relative to their income. However, many goods and services that are taxed at a reduced rate do not appear to contribute much to this objective (Barrios et al., 2016[71]). Most of the foregone revenues accrue to wealthier households because of their higher level of consumption (OECD, 2022[72]). For example, reduced rates in tourism and hospitality have brought large benefits notably to wealthier households and business owners (OECD, 2022[72]; Benzarti and Carloni, 2019[73]).

Greece also has room to raise excise taxes on harmful goods. Excise taxes on tobacco could be raised (Figure 1.23), and – like many other EU countries – Greece has yet to introduce special taxes on food that is high in fat, sugar and salt (EC, 2023[74]). Costs from smoking and dietary risks in Greece are high (OECD, 2023[75]). Smoking contributed to 22% of deaths in 2019, compared to 17% in the EU on average. The smoking prevalence among 15-year-olds is now on par with the EU average, but smoking among adults remains high by international comparison. By contrast, dietary risks contribute less to deaths than in other EU countries, but obesity among young people has risen from 22% in 2018 to 28% in 2022 and become a particular health concern. Taxing tobacco and unhealthy food would steer people towards healthier behavior and raise revenues to address health costs. Taxation would complement other policy measures promoting healthier behaviour, such as regulations limiting marketing of unhealthy goods and labelling (UNICEF, 2020[76]). According to the WHO, higher taxes on harmful goods such as tobacco are the most effective way to dissuade consumption and have a progressive effect when accounting for medical expenditures and the impact on working time (WHO, 2021[77]). However, if these taxes are set at very high levels, this may give rise to leakage or strong incentives for illegal imports (EC, 2020[78]).

### Figure 1.23. Raising excise taxes on tobacco could reduce smoking and generate revenues

Specific excise in USD per 1000 cigarettes, as of 1 January 2022




Source: OECD (2022).

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### Table 1.9. Past OECD recommendations on tax policies

| Past Recommendations | Actions taken since 2023 |
|---|---|
| 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. | In 2023, establishment of a minimum imputed net income for self-employed based on gross minimum wage and sector-specific turnover. Imputed income can be contested upon request and may be followed by an audit.<br>In 2024, revenues from short-term rentals for companies or owners with at least three properties became subject to VAT. |
| 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. | A yearly tax expenditure report accompanies the state budget. It provides information on tax reliefs (including those that apply to fossil fuels), the number of beneficiaries, and the fiscal costs. However, the relative costs and benefits of tax expenditures are not regularly evaluated. |
| Use enhanced digital capacities to improve tax compliance, prioritising the self-employed. | In 2023, cash payments for real estate transactions were prohibited.<br>In 2023, only tax documents transmitted electronically to the Greek digital platform "myDATA" are taken into account for VAT purposes.<br>Interconnection of cash registers with POS terminals has been made mandatory. Additional measures include making acceptance of electronic payments in retail and e-invcoicing mandatory, raising fines for making cash payments over EUR 500, and granting of benefits exclusively through debit cards. |

## Structural reforms for stronger, more inclusive and greener growth

### *The long-term economic outlook hinges on structural reforms*

Looking ahead, a key imperative for Greece will be to achieve stronger economic growth. This will not only allow raising material living standards and accelerating income convergence, but also improve the sustainability of fiscal accounts. Stronger growth can be achieved by strengthening productivity and investment, but also through further increases in employment.

Despite the recent rebound, real GDP growth has been weak during the last two decades, with negative contributions from labour productivity and employment (Figure 1.24). The weakness in labour productivity growth has been explained by weak investment which has led to lower capital stocks per worker. In addition, multi-factor productivity, which measures the efficiency with which production factors are combined, has been stagnant for the past three decades (Chapter 2) (OECD, 2023[6]). In the coming years, the “Greece 2.0” investment push and reforms will strengthen both investment and multi-factor productivity, but in the longer run,  an ageing workforce and the transition costs towards a greener economy will increasingly act as a drag on growth, while the benefits from the current reform agenda will fade (Guillemette and Château, 2023[79]). As a result, growth is likely to slow in the late 2020s, according to OECD simulations.

Main bottlenecks towards stronger growth include low skills, widespread labour market mismatches and labour shortages, and difficulties of small and young dynamic firms to grow (Chapter 2). Greece's low productivity growth is closely related to an inefficient allocation of resources, both with respect to labour and capital. This is reflected in a high dispersion of the marginal revenues from capital and labour, which suggest that reallocating resources from one sector or firm to another could lead to more output using the same resources. For the factor labour, the main challenge is that many jobs remain trapped in less productive businesses in both the manufacturing and services sectors (Gorodnichenko et al., 2018[80]; Pissarides et al., 2023[44]). The use of capital could become more productive by restructuring the still large amounts of non-performing private debt on the balance sheets of banks and credit servicing firms and putting these resources to more productive use in firms that require new financing to grow (Chapter 2). While Greece has made progress in removing these assets from bank balance sheets and reducing risks for the banking system, further efforts will be required to achieve a more definitive solution and allow these resources to move to other uses, including through restructuring or write-offs and improved restructuring procedures and judicial effectiveness.

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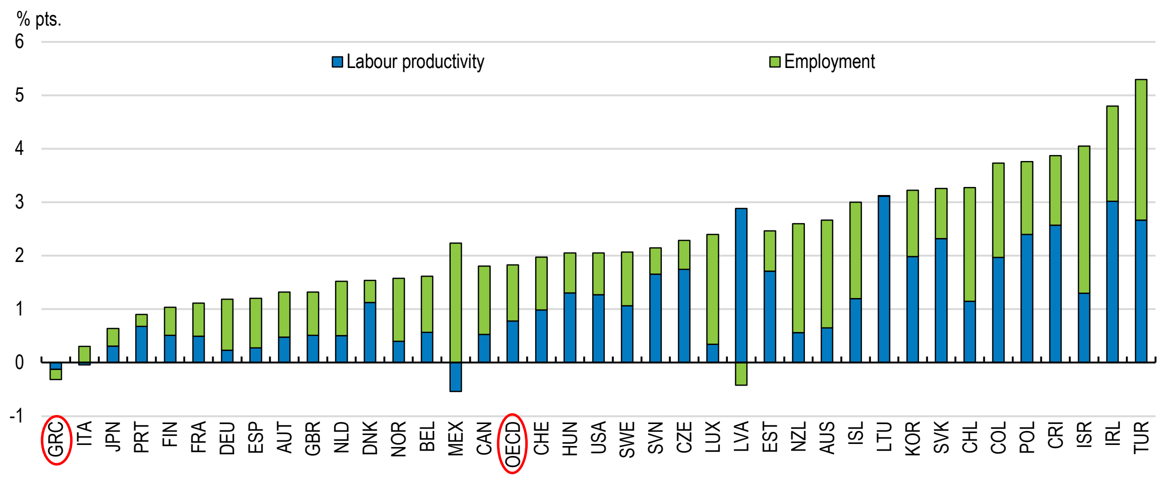
### Figure 1.24. Productivity and employment growth have stagnated

Annual contributions to real GDP growth, 2003-23




Note: Labour productivity is defined as real output per worker.
Source: OECD (2024), Economic Outlook: Statistics and Projections (database).

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Reforms will be needed to address these challenges. The “Greece 2.0” programme, is a key element of these reforms to raise potential growth over the longer term and improve fiscal sustainability (Box 1.3). The effects of these reforms are quantified in an illustrative manner in Table 1.10, labelled as scenario B. According to these simulations, per capita incomes could be up to 3.5% higher by 2060 if these reforms were fully implemented, or 2% higher by 2040.

At the same time, more could be done to lift growth and incomes in the longer terms. In particular, per capita incomes could be raised by another 5.3% by 2060, or 3% by 2040, with the implementation of a combination of policy measures recommended in this Survey (Scenario C in Table 1.10). These include, for one, improvements in the institutional environment, such as leaner administrative processes, more judicial responsiveness and stronger efforts to fight corruption, as described in Section 1.4.3. Another essential element of these additional reforms would be further reductions in regulatory barriers that stand in the way of stronger competition and add unnecessary administrative burdens. Further raising investment in research and development and improvements in the quality of education would also be part of this reform package, in addition to further reductions in labour tax wedges for low-income earners and measures to address labour shortages.

But stronger growth is not the only policy objective for the longer term. Growth will also need to become more inclusive, notably for women, older workers and the long-term unemployed. Further measures to raise labour force participation and employment rates can help in this regard, while at the same time offsetting much of the downward pressures on growth from population ageing (Table 1.10). This requires reforms to raise the labour force participation of women, notably by creating additional childcare places and improving access to childcare (Section 1.4.2). In addition, income opportunities for workers can be boosted through high-quality training programmes, which are particularly effective when targeted to those who need them most (Chapter 2). These should be accompanied by measures to increase the quality of education more widely, notably to reduce the high level of skill mismatches in the Greek labour market (Section 1.4).

### Table 1.10. Continuing investment and reforms would support growth

Incremental effect on the level of real GDP per capita, %[1]

| Scenario | Policy package | 2025 | 2030 | 2040 | 2050 | 2060 |
|---|---|---|---|---|---|---|
| (B)<br>Full implementation of Greece 2.0[2] | - Codification of regulations, digitalisation of government services and judicial processes, and clarity around spatial planning lift perceptions of the rule of law raise to the 33rd percentile of OECD countries by 2030, then they stabilize;<br>- Regulatory reforms lower the overall product market regulation index by 0.1 by 2025;<br>- 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;<br>- The labour income tax wedge at the average wage for a single and for a single-earner couple with two children declines by 2.4 percentage points between 2023 and 2025;<br>- Improvements in education quality and adult skill training raise the average PISA scores to the first quartile of OECD countries by 2030. | 0.0 | 0.6 | 2.0 | 3.0 | 3.5 |
| (C)<br>Survey recommendations | - 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;<br>- Product market regulation further improves by 0.2 by 2027;<br>- R&D investment continues to rise to reach 2.0% of GDP from 2030;<br>- Improvements in education quality continue to reach the OECD median by 2050;<br>- The average tax wedge decline by 2 percentage points in 2026-27, through targeted cuts towards low-income earners;<br>- 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 2060 8.7% (352 000) higher than in the other scenarios. | 0.0 | 0.8 | 3.0 | 4.5 | 5.3 |

Note: 1. For scenario B, incremental effects are measured with respect to a baseline scenario (A) in Figure 1.15 which include all measures already legislated by mid-2024, including the full implementation of pension reforms over time. For scenario C, incremental effects are measured with respect to scenario B. 2. The full impact of the 'Greece 2.0' Recovery and Resilience Plan over 2021-26 on the level of GDP per capita was estimated at 1% in 2025, 5.6% in 2030 and 12.3% in 2040 in OECD (2023).

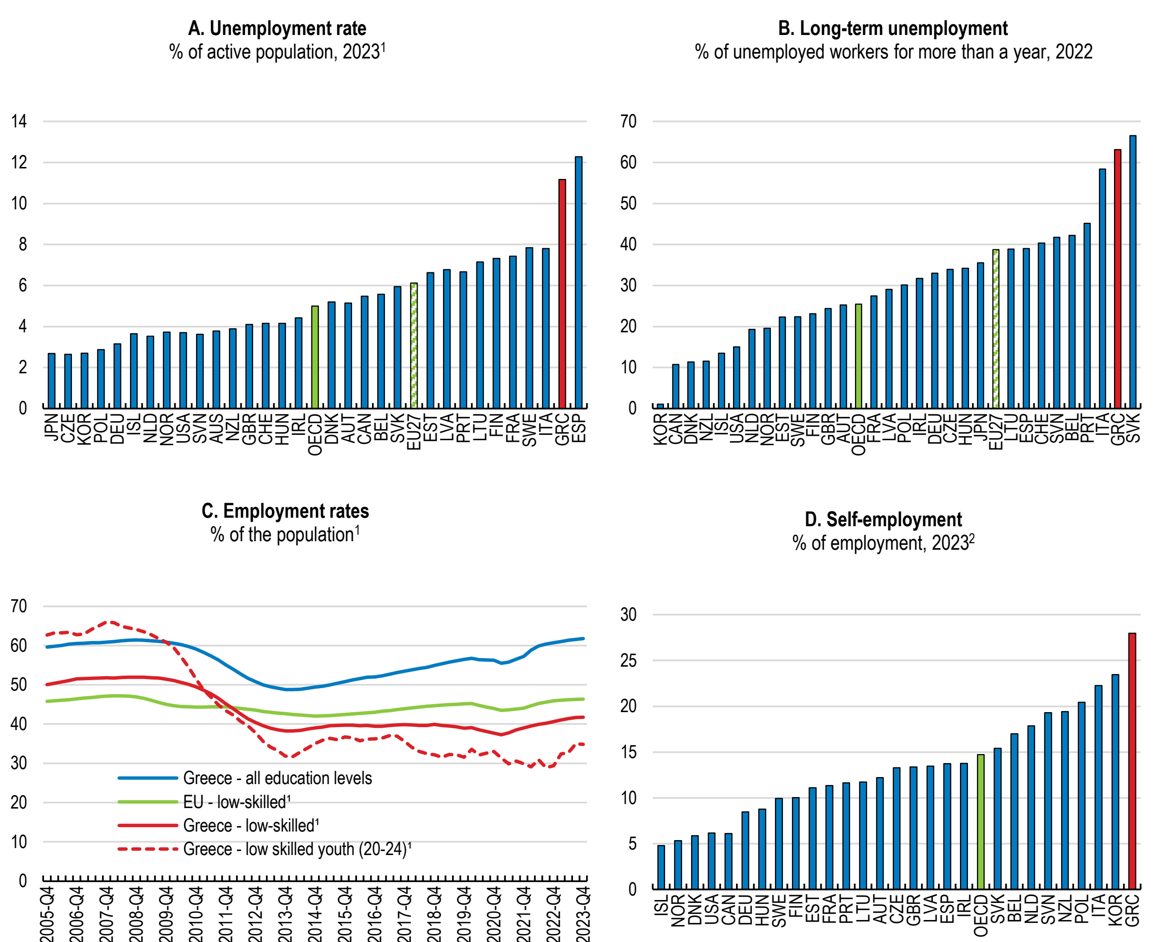
Source: Simulations based on the OECD's Global Long-Term Model and Eurostat population projection scenarios, and OECD Economic Outlook 115 (database) updated; OECD (2023), OECD Economic Survey Greece 2023, OECD publishing Paris.

Achieving greener and more sustainable growth in line with Greece's ambitious climate targets will also require further policy action, some of which will need additional financial resources. Greece has substantially increased its capacity to generate energy from renewable resources, but progress needs to step up to meet the needs stemming from the phase out of fossil fuels. Additional efforts should focus cutting the still high levels of Greenhouse Gas (GHG) emissions from transport and buildings and on achieving emission reductions in a cost-effective way through improved price signals and regulations (Section 1.5).

### *More efficient labour markets would boost employment and incomes*

Several of the reforms recommended in this Survey and quantified in Table 1.10 aim at making the Greek labour market more efficient and more inclusive, as both labour shortages and wide-spread skills mismatches have been holding back economic performance. Access to workers and skills is becoming a constraining factor for the expansion of many firms. Employers report growing difficulties in recruiting employees, for example in the construction and ICT sectors. Paradoxically, this coincides with an unemployment rate – including for long-term unemployment – that remains among the highest in the OECD (Figure 1.25, Panel A and B) (OECD, 2024[81]). Even prior to the COVID recovery, Greece had one of the highest degrees of mismatches between workers' skills and employers' needs, as discussed in previous OECD Economic Surveys (OECD, 2020[67]; 2023[6]). The recent growth in employment is likely to have amplified skills shortages.

## Figure 1.25. The labour market faces structural challenges




Note: 1. Percentage of the 15-64 year-old population, except for the line 20-24 where the percentage refers to the 20-24 year-old population Low skilled workers cover workers with less than primary, primary and lower secondary education (levels 0-2). Low-skilled workers account for 15.1% of employment in Greece in 2023. 2. Or latest available year.
Source: Eurostat (2024), Employment rates by sex, age and educational attainment level (database), OECD (2024).
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The potential to mobilise more workers and skills remains large, despite improvement from the 2022 "Jobs again" reform and significant EU funding for Active Labour Market Policies (Table 1.11) (OECD, 2024[81]). Overall employment rates remain low across various population groups. Recent employment growth has been concentrated among more highly skilled workers and has lagged for low-skilled workers, especially

younger ones (Figure 1.25, Panel C). The high share of long-term unemployed also points to the need to better activate jobseekers and strengthen Active Labour Market Policies (Chapter 2). Moreover, Greece's large pool of self-employed workers still accounts for more than 30% of employment and comprises many people working at the subsistence level, although many of them likely underreport their incomes (Panel D) (OECD, 2024[81]; IMF, 2024[11]). Raising Greece's low employment rates among these latter groups and improving the structure of employment will be important to help offset the declining working-age population (Table 1.5).

### *Ensuring better and more relevant skills*

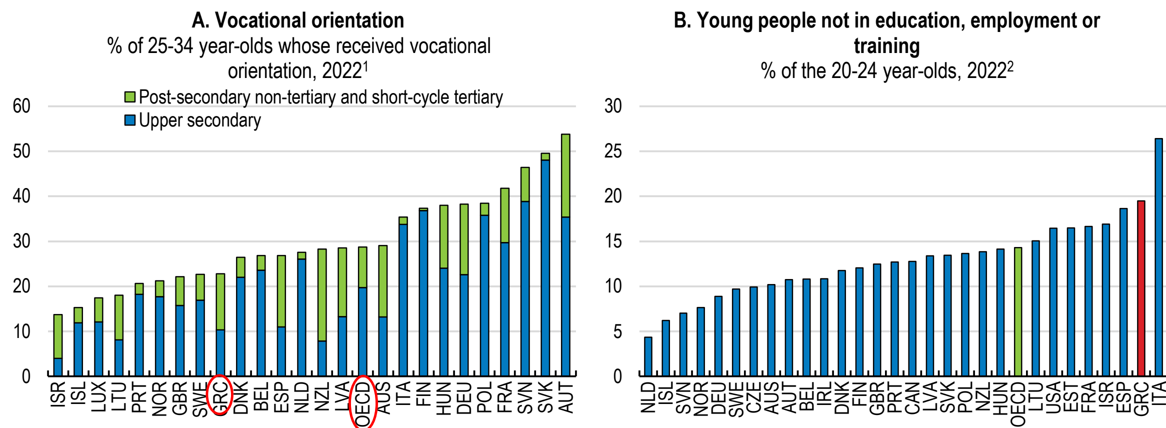
Strengthening general skills and professional competencies is essential for improving employability, incomes and well-being in Greece. At the level of higher education, Greece performs remarkably well. University enrolment rates are high and rising, and over half of children complete higher levels of education than their parents (Danchev et al., 2023[82]). Participation in science, technology, engineering and mathematics (STEM) education exceeds the OECD average, notably for women, and has been rising.

Secondary, post-secondary and vocational training curriculums could be better aligned with labour market and business needs would improve the labour market outcomes of young graduates (Figure 1.26). Despite an 18% increase in vocational education enrolment over 2019-23, the share of 25–34-year-olds graduating from vocational education still stood at 23%, below the OECD average (OECD, 2023[83]). Greece tends to spend a lower, albeit increasing, share of its educational resources and of GDP on vocational education and training (VET). A number of RRF projects focus on upgrading VET institutions, such as the renovation of all 376 VET laboratory centres (over EUR 110 million). However, some vocational routes are unattractive because they provide poor labour market opportunities for graduates (OECD, 2023[83]; EC, 2023[84]). Reputational issues can also matter as vocational training as at times perceived as a failure to progress to higher education (IOBE, 2021[85]), though Law 4763/2020 increased access to Higher Education for VET graduates. The current design of VET programmes also fails to ensure the development of relevant skills from the employers' perspective. This is related to the weak engagement of social partners in the design of vocational programmes (IOBE, 2021[85]). Moreover, Vocational High Schools (EPAL), which concentrated 90% of VET students in secondary education in 2018, have a low share of time spent in the workplace (OECD, 2020[86]). However, the roll out of compulsory traineeships in all EPAL schools in 2024, the direct involvement of social partners in the development of 130 new vocational training guides, and the foreseen transfer of the management of the training levy (LAEK) to social partners are steps in the right direction, as well as the planned VET tracking system aiming at measuring the impact of the training on labour market participation.

Greece should build on recent progress with its reform of the national VET system to roll out work-study programmes more broadly. This would make VET more attractive, help students' transition into working life, and provide more valuable skills to workers and businesses. The 2020 VET reform focused on improving the attractiveness of VET studies and mandated the direct participation of employers and trade unions in the governance Councils, the development of the National VET Strategy, as well as the upgrading of curricula and training guides. In 2021, the Public Employment Service (DYPA) established seven new experimental apprenticeship vocational schools (PEPAS), on top of the 50 apprenticeship vocational schools (EPAS), which combine classroom instruction with apprenticeships. In 2022-23, new vocational training schools (VTS), which also include apprenticeship periods, started operating. Future improvements in VET should focus on strengthening the role of workplace training and close cooperation with employers, including in Vocational High School (EPAL). For example, in Germany, 89% of vocational upper secondary students are enrolled in combined school and work-based programmes (OECD, 2023[87]), with relatively long apprenticeship contracts that facilitate school-to-work transitions (OECD, 2020[86]). Similarly, vocational programmes also attract a large share of upper-secondary students in Switzerland, mostly with combined school-programmes and long work-based experience (OECD, 2020[86]; OECD, 2023[88]).

Better career guidance in secondary education, underpinned by accurate labour market information, will help learners make education choices that match their interests, aptitudes and abilities, and lead to more rewarding employment. Despite widespread evidence of mismatches between the fields of study chosen by students and labour market needs, the Greek guidance system has long been lacking adequate information about employment outcomes, coordination among stakeholders, and a national strategy for school guidance (Cedefop, 2020[89]; Katsikatis, 2021[90]). A mechanism for the identification of labour market needs was established in 2016 and has progressively delivered new data on skill supply and demand, which could feed into the official web portal of educational opportunities meant to guide student choices, which contains information on programmes, labour market outcomes and typical career pathways (eoppep.gr/teens). In addition, two school life counsellors have been required in each secondary education school since 2020, to be designated among teachers and Interdisciplinary Assessment, Counselling and Support Centres (KEDASY) have been created in 2021, and the VET campuses (KEEK) launched in 2024 will have to include a Professional Development and Career Office (GEAS).

## Figure 1.26. Strengthening vocational education could ease labour market integration




1. Share of 25-34 year-olds whose highest level of education has a vocational orientation.
2. Share of young people who are not in employment, education or training (NEET), as a percentage of the total number of young people in the corresponding age group.
Source: OECD (2023), Education at a Glance, Table A1.3; OECD (2024), Youth not in employment, education or training (NEET) (indicator).

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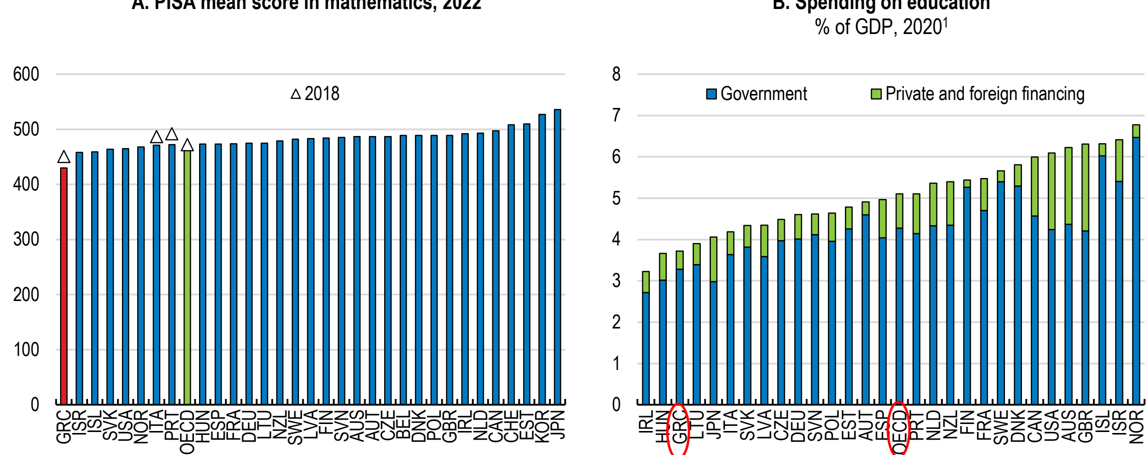
Some of the current labour market challenges may even have their roots earlier in the education system. Both education spending and outcomes, as measured by the OECD Programme for International Student Assessment (PISA), are low compared to most other OECD countries (Figure 1.27). In 2021, Greece invested only 3.7% of its GDP in education, while the OECD average was 5.1% (OECD, 2023[83]). Despite relatively low spending and low PISA scores, Greece's education system performs reasonably well in some dimensions. Fewer high school students drop out from education than in the OECD average, and the performance gaps of those from disadvantaged backgrounds are less pronounced than in the OECD average (OECD, 2023[91]). Greece has been engaging in several reforms to its education system (OECD, 2018[92]), including the 2021 law on "Schools' upgrade and teachers' empowerment" which created incentives to improve teacher career prospects and aimed at rolling out teacher evaluations. The implementation of a revised school curricula in 2024, the decentralisation of textbook selection to teachers, a stronger reliance on permanent teacher positions as opposed to temporary contracts (EC, 2023[93]), as well as the planned OECD policy review of Greece's educational system to analyse the causes of persistent gaps in educational outcomes, are further steps in the right direction.

## Figure 1.27. Educational outcomes have been lagging




Note: 1. Total expenditure on primary to tertiary educational institutions.
Source: ECD (2023), Education at a Glance 2023: OECD Indicators, OECD Publishing, Paris; OECD, PISA 2022 Database, Tables I.B1.2.1, I.B2.2.1 and I.B1.5.4.

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### *Strengthening wage setting and activating workers*

Wage developments matter for both growth and inclusiveness. On one hand, wage developments affect the competitiveness and viability of firms, including the large number of SMEs that employed around 83% of the labour force in 2022 in Greece, and typically have low profit margins (Chapter 2). On the other hand, better wages raise material living standards and domestic demand.

Wages have started to rise among workers with skills that are in high demand, such as ICT or construction, after falling or stagnating for over a decade (Bank of Greece, 2024[18]). Recent policy measures have focused on increases in the minimum wage, which began to rise rapidly in 2019, following several years without improvements (Figure 1.28, Panel A). As a result, wages also increased at the lower end of the wage distribution, amid a significant wage compression across low- and high-pay industries (OECD, 2024[94]).

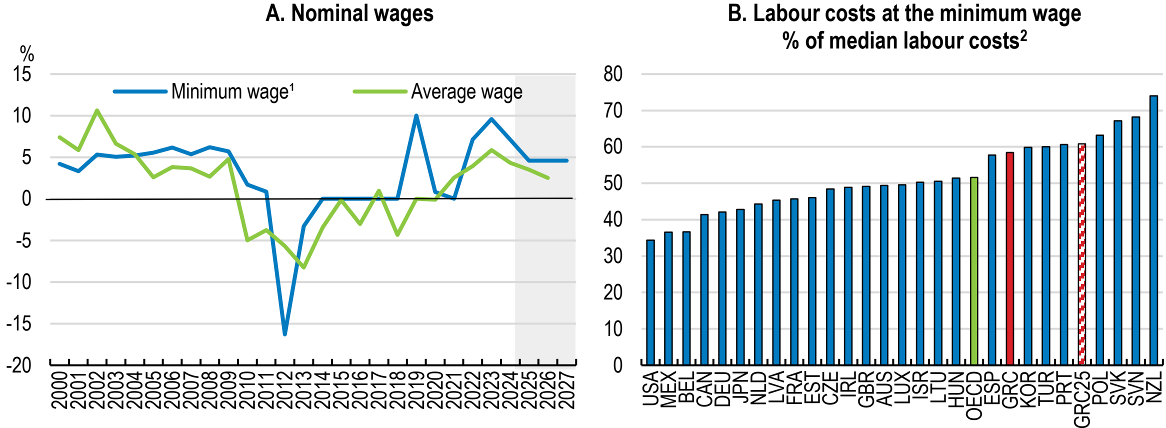
Current government policy objectives include raising the minimum wage towards 950 Euros by 2027, which would imply and increase of 14.5% compared to April 2024. This could raise aggregate wages and productivity, notably by accelerating the shift of labour resources to larger and more efficient companies, as found in Germany (Dustmann et al., 2021[95]). At the same time, such large increases also bear risks for the employment of numerous low-skilled workers and the survival of small firms, especially in light of the weak productivity growth of recent years and of a declining but still large informal sector, estimated at 16% of GDP in 2021 after peaking at 30% in 2013 (IMF, 2024[11]).

Minimum wages can be an important tool to protect the standard of living of low-paid workers, but they also risk disincentivising the hiring of low-skill workers, some of which may effectively be priced out of the labour market. At the level set in most OECD countries, minimum wage increases, even large ones, have had positive effects on low incomes and either no or limited negative effects on employment (Dube, 2019[96]), though the employment effect can be significant for low-wage workers (Neumark and Shirley, 2022[97]). However, the available evidence for Greece is more mixed. Some empirical investigations suggest that minimum wage changes over 2014-17 and 2004-19 were not associated with significant changes in employment and unemployment (Georgiadis, Kaplanis and Monastiriotis, 2018[98]; Andriopoulou and Karakitsios, 2022[99]). Other empirical work, however, suggests that 2004-2013 minimum-wage increases have gone along with employment losses (Kanellopoulos, 2015[100]).

Rising labour costs could hold back future employment increases, which are needed to sustain strong growth. Current labour costs at the minimum wage are already high in international comparison and the planned increases will exacerbate this (Figure 1.28, Panel B). Given the high employment share of SMEs with often low profit margins, attention should be paid to ensuring that increases in labour costs do not deter employers from hiring low-wage workers (Neumark, 2018[101]). High labour costs could also encourage employers to use more precarious forms of employment, such as falsely declaring dependent work as self-employment. Regular evaluations of minimum wage policies are key to minimise these risks (OECD, 2018[102]). One way to counterbalance any potential negative employment effects from a rising minimum wage would be to reduce employer social security contributions for low-wage workers. By contrast, further untargeted reductions of social contributions are less effective and have high fiscal costs.

The process of setting the level of the minimum wage could also be strengthened further. The process involves an independent committee of experts that reports and publishes its opinion on the appropriate wage adjustment to the government, in light of its assessment of the state and prospects of the economy and after consulting with social partners. However, the government is not bound to follow the committee's advice (OECD, 2020[67]; Eurofound, 2023[103]). Strengthening the role and independence of the minimum wage experts committee, by requiring the government to explain differences between its decisions and the committee's recommendations, would strengthen the role of the committee and with that the minimum wage setting process (OECD, 2023[6]).

## Figure 1.28. The planned increase of the minimum wage will put pressures on labour costs




1. Minimum wage growth over 2025-27 is assumed to be constant, so that the minimum wage reaches the target of EUR 950 per month in 2027.
2. The GRC25 bar assuming the minimum wage would reach EUR 920 per month in 2025 (based on the target of EUR 950 per month in 2027).The estimate also assumes that the median wage increases in line with the average gross wage projected over 2023-25. The OECD simulations are based on the Tax-Ben model and take into account the Greek tax and transfer system of 2023. Labour cost is calculated as the gross minimum wage + employer social security contributions and payroll taxes, including any other mandatory payments to private insurance for health, retirement pensions, etc. Results refer to a single person without children aged 40 and working full-time and full year. Social assistance and housing benefits are available if the relevant eligibility and income conditions are met. Housing benefits are calculated assuming private market rent plus other relevant charges amounting to 20% of the national average wage.
Source: OECD Economic Outlook: Statistics and Projections (database); Database on Minimum Wages; OECD Tax-Benefit Model ("TaxBEN") version 2.6.0.

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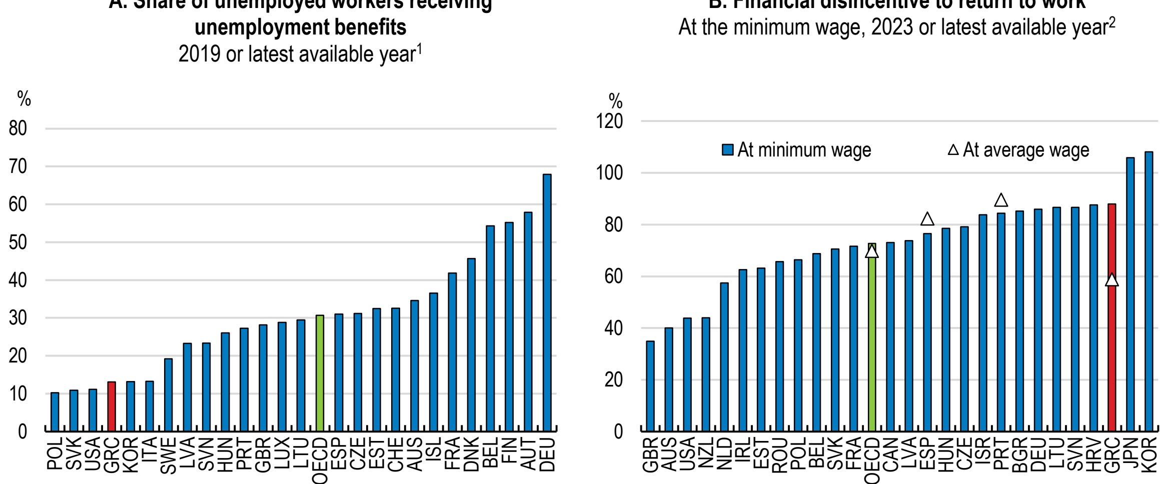
The need to maintain strong employment also has implications for protecting the unemployed. Incentives for a jobless person to take up employment currently appear low (Figure 1.29, Panel A) (OECD, forthcoming[104]) and the tax wedge is relatively high (Chapter 2). In particular, in-kind support targeted via the unemployment register, including travel subsidies and financial support for paying utility bills, further undermines incentives to accept a job offer, especially at a low wage. This support should be shifted towards means-tested income support, so that unemployment is not a necessary condition for accessing these benefits (OECD, 2020[67]).

Additional reform options to strengthen work incentives could include in-work or into-work benefits, such as those recently introduced for unemployed workers. For example, in France, low-wage workers receive a generous in-work benefit on top of their wage. This benefit increases the difference between the net income while in employment and out of employment (OECD, 2023[105]; Carcillo et al., 2019[106]).

A broader reform of the unemployment insurance system also holds potential to strengthen employment incentives and better protect workers from poverty (OECD, forthcoming[104]; 2022[107]) (Figure 1.29Panel A and B). Unemployment benefits are paid at a flat rate, independent of previous earnings and their level is low for a worker who previously earned an average wage, but it is considerably higher for low-income earners (OECD, 2023[105]). Together with the short contribution period required to become eligible for unemployment benefits (5 months), their short duration (12 months) and the loosely defined job-search requirements, the current unemployment benefit system tends to favour rotation on short-term contracts which are detrimental to career progression and productivity growth.

Besides undermining work incentives for those with low prior wages, unemployment benefits fail to provide satisfactory coverage and protection. Only around 50% of workers in standard jobs received any income support following a dismissal (OECD, 2020[108]). This is partly explained by the large share of self-employed and seasonal workers. However, coverage is also particularly low for the long-term unemployed. The maximum duration of the standard unemployment benefits is short, and eligibility to long-term unemployment insurance is limited: it is only available for those who built up – and exhausted – the maximum standard unemployment allowance and it is means-tested based on the previous fiscal year. Benefit levels are not sufficient to protect out-of-work families from poverty (OECD, forthcoming[104]; 2022[107]). A comprehensive reform of unemployment insurance should reinforce the link between previous earnings and benefits and extend benefit durations to prevent jobseekers from sliding too quickly into much less generous minimum-income benefits, while encouraging permanent employment.

### Figure 1.29. Unemployment benefits should be redesigned




1. Unemployed” refers to the standard ILO definition, i.e. out of work, actively looking for work, and available to start work. Some European countries are excluded due to missing information in EU Labour Force Survey data. 2015 figures for Australia, 2018 for the United States. LFS data for Sweden do not include a series of benefits that are accessible to jobless individuals who: i) are not in receipt of core unemployment benefits, and who ii) satisfy other conditions such as active participation in employment-support measures.

2. This indicator measures the percentage of earnings lost to either higher taxes or lower benefits when a jobseeker returns to work after two months of unemployment. Calculations refer to a person with two children whose partner works full-time at 67% of the average wage.

Source: OCDE (2023), Benefit Reforms for Inclusive Societies in the United States: Income Security During Joblessness, OECD Publishing, Paris; OECD (2024), Financial disincentive to return to work (indicator).

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Measures to strengthen employment and wages should be well coordinated with measures to reduce poverty and inequalities. The impact of social transfers (excluding pensions) on reducing relative poverty decreased from 24.7% in 2020 to 20.6% in 2021 (vs 37.1% in the EU). The adequacy of the minimum income scheme is below the EU average.

Despite recent progress, the administration of benefits remains fragmented with benefits operating under many different payment platforms, which are planned to be merged into a single payment platform in 2024. To the extent that this reduces benefit duplication and makes social benefit delivery more efficient, it could lead to much-needed improvements in public spending efficiency (Section 1.3), while at the same time rendering support more accessible for the most vulnerable. At the same time, the take up of the minimum income (GMI) is low (World Bank, 2019[109]). A first step to reduce complexity would be to align equivalence scales across social transfer programmes (OECD, 2020[67]). Further could include establishing a one-stop shop application within the public employment system as done in Austria, simplifying the eligibility criteria, and using data-linking to identify eligible non-applicants (OECD, 2020[110]).

Greece significantly reduced employment gaps to OECD countries across the wider population in recent years. Employment gains were particularly strong for women, amounting to a 7.7 percentage points increase in the employment rate of women aged 25 to 54 years from January 2019 to 2024 (Figure 1.6). The incorporation of more women into the labour market helped assuage large and growing labour shortages (Chapter 2) and contributed to higher and more widely shared growth.

## Table 1.11. Past OECD recommendations on labour markets

| Past recommendations | Actions taken |
|---|---|
| Implement ongoing reforms to the public employment service, developing mutual obligation requirements centred on tailored personal action plans. | Funding from the Recovery and Resilience fund is being used to modernise the Public Employment System, such as updating its main operational IT system and developing new digital tools for jobseekers to access and prove their eligibility to benefits and rights.<br>The public employment service launched "Job Match", an application to ease employer and jobseekers matching in 2024 and provides counseling services for jobseekers. |
| Consider replacing non-monetary unemployment benefits provided to the registered unemployed with targeted income support. | No action identified. |
| Reduce the procedural barriers to recognising education and skills gained outside of Greece. | Laws 4957/2022 and 5094/2024 facilitated the recognition of degrees. They set up registries of recognized foreign HEIs and academic titles that are kept and updated by the Greek National Academic Recognition and Information Center. Work is also ongoing on the design of a national system of recognition of prior learning. |

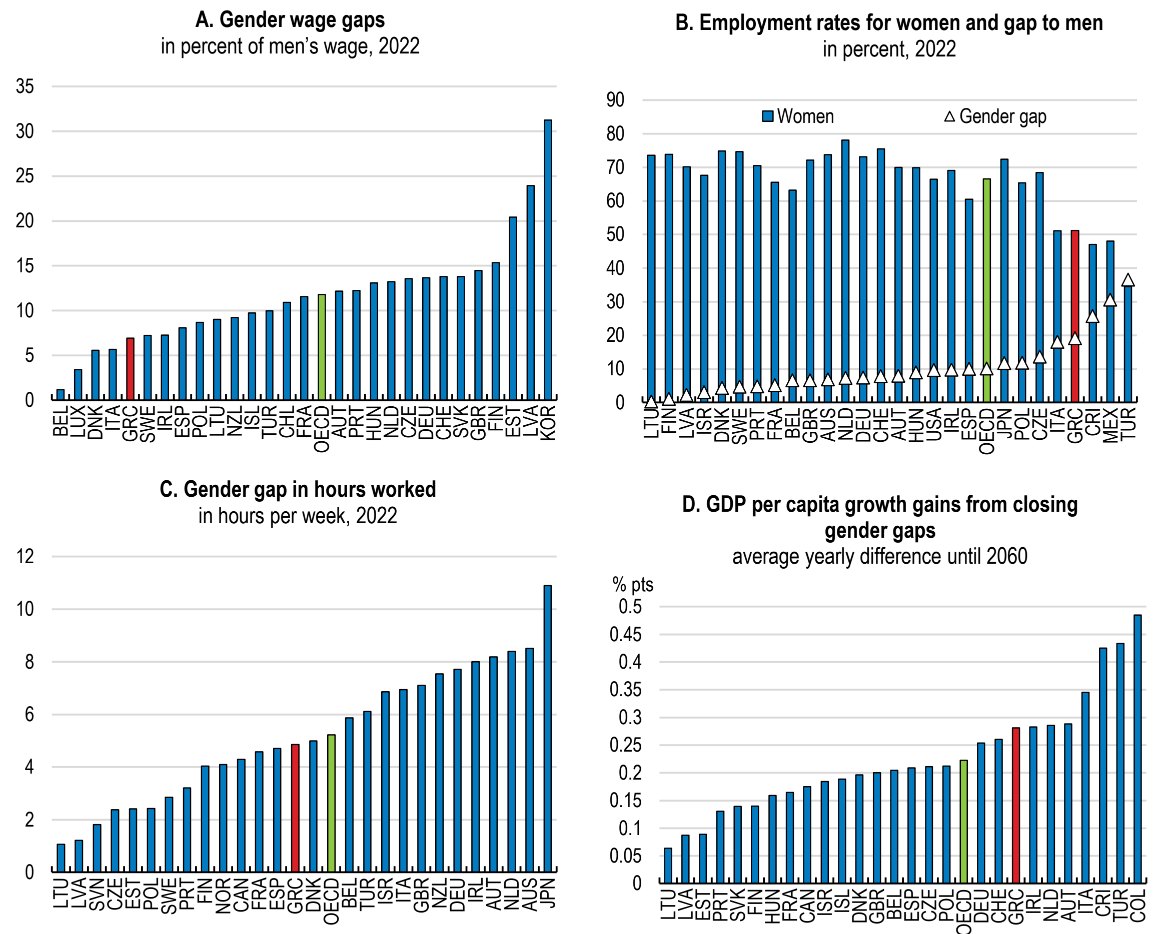
### *Improving employment opportunities for women*

Despite this progress, there is significant scope to further improve opportunities for women. The gap in employment rates between men and women remains large and the female labour force participation rate is among the lowest in the OECD (Figure 1.30, Panel B). Women also tend to work fewer hours than men (Figure 1.30, Panel C), and continue to earn lower wages (Figure 1.30, Panel A), though when compared to the OECD average these latter differences are less pronounced. Overall, OECD simulations suggest that Greece could achieve large gains from further closing gender gaps in the labour market, amounting to around a quarter of a percentage point in additional GDP growth every year until 2060 (Figure 1.30, Panel D). Activating women could bring additional gains for management quality (Chapter 2), both by drawing on a larger pool of managerial talent, and by raising gender diversity among firm management, which has been associated with better firm performance across OECD countries (Criscuolo et al., 2021[111]).

More is needed to make quality childcare available to more women. Per capita public spending on daycare and other in-kind benefits, though increasing, remained among the lowest in the EU in 2021 (Figure 1.31,

Panel C). By contrast, per capita spending on birth grants was among the highest (Figure 1.31, Panel B). Evidence from OECD countries suggests such grants have only a limited impact on raising births, while policies improving the work-family balance – including childcare – have been found to be effective (Thevenon and Gauthier, 2011[112]). Shifting public spending to more daycare and in-kind benefits would help to address difficulties in finding qualified staff, notably by improving working conditions, including training for teachers and caretakers (EC, 2023[53]; EC, 2023[113]).

## Figure 1.30. Improving gender equality would raise long-term growth




Note: Panel C: Difference between men's and women's average usual weekly hours worked on the main job; OECD refers to the average of 37 Member countries; data are from 2022, except for the Czech Republic (2021), Türkiye (2020) and Australia (2018).
Source: Panel A to C: OECD Employment and Labour Market Statistics (database); Panel D: Fluchtmann, Keese and Adema (2024), Gender Inequality and Economic Growth: Past Progress and Future Potential.

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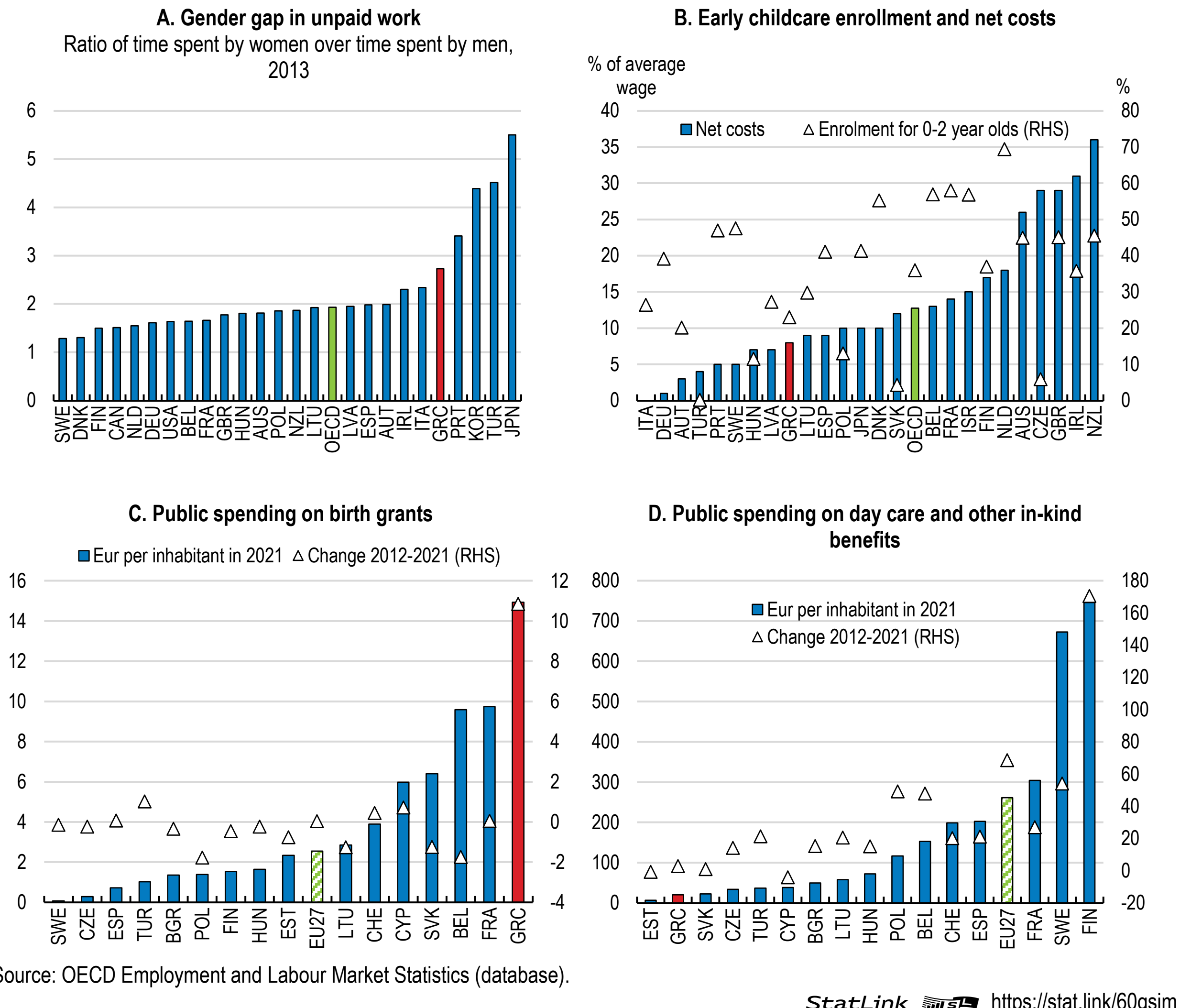
Reducing the gender gap in parental leave would help to further address constraints on women entering the workforce and gaining experience. Greece introduced measures to make it easier for men to take parental leave, for example with an electronic platform to complete administrative arrangements. It could additionally strengthen incentives, for example by providing bonuses if fathers take their leave, following the examples of Finland, Germany and Italy. Going further, it may join other countries such as Spain in aligning both parents' leave entitlements. Strengthening awareness campaigns such as Greece's "Share" project and its establishment of equality labels for companies adopting corporate gender equality policies would also help to counter stereotypes and increase the uptake of childcare services (Carcillo and Valfort, 2020[114]).

## Figure 1.31. Raising early childcare capacity is key to improve gender equality




Source: OECD Employment and Labour Market Statistics (database).

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## Table 1.12. Past OECD recommendations to promote gender equality

| Past recommendations | Actions taken |
|---|---|
| Promote women's participation in paid employment including by encouraging workplaces to adopt more flexible work arrangements. | Further measures have been legislated including the extension of maternity leave and tele-working facilities. |
| Strengthen incentives for employers to hire young workers with limited experience, such as waiving employers' social security contributions for new hires. | Following the 2022 "Proto Ensimo" programme, the Public Employment Service (DYPA) provides targeted employment programmes, such as pre-employment programmes for young unemployed workers. |
| Introduce incentives to ensure the new paid paternal leave is taken up. | In 2023, provisions introducing incentives for paternal leave have been extended to self-employed and farmers. |
| Encourage higher participation in the expanding facilities for quality, low-cost care for young children and elderly relatives. | A successful pilot programme on "Neighbourhood nannies" is now set for national roll-out to enhance childcare capacities. |
| Progressively move the teacher workforce onto longer-term contracts that support and reward performance and avoid the rigidity of the existing permanent contracts. | No action identified. |

### *Fostering integrity and combatting corruption*

Strong institutions are key to foster long-term economic growth. Continuing the efforts to control corruption is important to improve the business environment. Corruption distorts competition, damages investor confidence and diverts the use of public resources from the public interest, besides fostering a sense of mistrust towards public institutions (Gruendler and Potrafke, 2019[115]). While corruption perceptions have improved markedly over the last decade, they remain higher than in most OECD countries (Figure 1.32). Greece ranked 59th in the Corruption Perception index in 2023, indicating an improvement by 35 places since 2012, ranking 6th lowest among OECD countries. However, according to the EU's Special Eurobarometer, 97% of respondents in 2023 considered corruption to be widespread in Greece, the highest share among EU countries. Personal experience of citizens with corruption is also relatively high, with 13% reporting to have witnessed corruption in the past 12 months, the third highest share among EU countries (EC, 2023[116]).

Greece has taken several steps to strengthen its capacities to tackle corruption in recent years (Table 1.13). The framework appears now better than the OECD average in several areas, including for managing integrity risks and conflicts-of-interest, regulating lobbying and conducting independent internal audits (OECD, 2024[117]), while its system of tax transparency and anti-money laundering measures is on par with most OECD countries (Figure 1.33).

In 2019, the National Transparency Authority (NTA) was established to streamline anti-corruption policies. The NTA oversees the implementation of the National Anti-Corruption Action Plan (NACAP) for 2022-2025 (OECD, 2024[117]). According to Group of States Against Corruption, implementation of the previous NACAP, for the period from 2018 until 2021, progressed well (GRECO, 2022[118]). This was despite many unfilled positions. In 2023, 103 out of a total 503 post were unoccupied (EC, 2023[55]). Filling the remaining positions would strengthen its capacity further and support implementation of the current NACAP.

Among recent measures are new rules to regulate lobbying. A 2021 law regulates contacts between high-level members of the executive and legislative branches and lobbyists and mandated a transparency register. The implementation of the transparency register has been slow, however. After becoming operational in December 2022, it contained 14 entries by mid-2023, which was deemed insufficient by the Rule of Law report (EC, 2023[55]). The NTA expected to raise entries to about 40 to 50 lobbyists by the end of 2023 through awareness raising campaign (EC, 2023[55]), while by January 2024 there were 17 entries (National Transparency Authority, 2024[119]). The EU's transparency register had 12418 registrants in July 2023 (European Parliament, 2023[120]). Additionally strengthening penalties when failing to register may be needed. Rules to register could also be extended beyond professional lobbyists to further improve transparency on actors and interests influencing government policies who are not explicitly paid for doing so (GRECO, 2022[118]). Several OECD countries require – in addition to paid lobbyists – trade associations, NGOs, foundations, think tanks, and research centres to participate in transparency requirements (OECD, 2021[121]).

Greece has also strengthened whistleblower protection, transposing the 2019 EU Directive on protecting whistleblowers who report breaches of EU law in 2022 (European Parliament, 2023[122]). The law mandates internal reporting channels in every public entity and established the NTA as external reporting channel. The external reporting channel became fully operational in August 2023 and by December 2023 had received 55 reports, out of which 11 were under examination (National Transparency Authority, 2024[119]). In 2024, the OECD Working Group on Bribery recognised that Greece fully implemented its recommendation on the protection of whistleblowers reporting on foreign bribery (OECD, 2024[123]). However, the OECD Working Group expressed concerns about outstanding measures to prevent foreign bribery through control and supervision, as well as about the effectiveness and enforcement of penalties for natural persons for foreign bribery offences (OECD, 2024[123]).

### Figure 1.32. Reducing perceived corruption requires further efforts

A. Corruption Perceptions Index
Scale: 0 (worst) to 100 (best), 2023

B. Control of corruption
Scale: -2.5 (worst) to 2.5 (best), 2023

C. Evolution of "Control of Corruption"
Scale: -2.5 (worst) to 2.5 (best), 2023

D. Corruption by sector, "Control of Corruption"
Scale: 0 (worst) to 1 (best), 2023

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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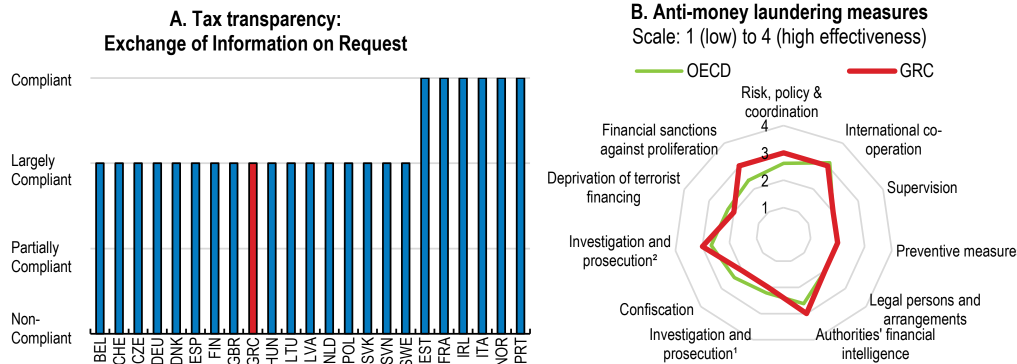
Current legislation on whistleblower protection could be further expanded to better promote the reporting of “illegal, unethical or dangerous” activities (OECD, 2019[124]; Banisar, 2011[125]). In addition to reporting on breaches of EU law or bribery and corruption, this includes reporting information on breaches of national law, serious violations of codes of conduct, gross waste or mismanagement, abuse of authority, and dangers to public health or safety (OECD, 2019[124]). The Group of States against Corruption (GRECO) highlighted the need to adopt a broad concept of misconduct in Greece, covering for example ethical breaches and to strengthen the protection of whistleblowers within the police (GRECO, 2022[118]). Civil society organisations also criticised the 2022 whistleblower law for not covering breaches of national law (EC, 2023[55]) and the limited scope on disclosures that are protected (Vouliwatch, 2022[126]). Broad definitions of misconduct on which reporting is protected are common across OECD countries, about 80% of OECD countries, such as Australia and the United Kingdom (Box 1.6), protect disclosure on reporting a serious breach of codes of conduct (OECD, 2016[127]).

Awareness-raising campaigns and fostering trust in protection will be important to make whistleblower protection effective in detecting corruption. In 2023, 38% of Greek respondents cited lack of protection as among the main reasons not to report corruption, and 32% believed that reporting would get them into trouble with the police or authorities, compared to 28% and 19% respectively in the EU on average (EC, 2023[116]). OECD recommendations for Greece to encourage participation and foster trust in whistleblower

protection include, among others, granting honorific and monetary rewards to whistleblowers in the public sector, continuing the design and implementation of awareness-raising campaigns and events in collaboration with civil society organisations (OECD, 2019[124]).

## Figure 1.33. Antimoney laundering measures




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 results from the ongoing second round when available, otherwise first round results are displayed. 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 prosecution[1]" refers to money laundering. "Investigation and prosecution[2]" refers to terrorist financing.

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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### Box 1.6. Country examples for definitions of misconduct on which whistleblowing is protected

In the **United Kingdom,** legislation specifies the following elements on which reporting is protected:

- a criminal offence that has been committed, is being committed or is likely to be committed;
- a person has failed, is failing or is likely to fail to comply with any legal obligation to which he is subject;
- a miscarriage of justice that has occurred, is occurring or is likely to occur;
- the health or safety of any individual that has been, is being or is likely to be endangered;
- the environment that has been, is being or is likely to be damaged, or
- information tending to show any matter falling within any one of the preceding paragraphs has been, is being, or is likely to be deliberately concealed.

In **Australia,** the Public Interest Disclosure Act provides guidance on the meaning of "disclosable conduct" as:

- "conduct (in Australia or in a foreign country) that contravenes the law, that constitutes maladministration, that is an abuse of public trust, that results in wastage of public money, public property, money of a prescribed authority, property of a prescribed authority, or conduct that results in danger (or a risk of danger) to the health or safety of one or more persons or the environment. In addition, disclosable conduct also includes when a public official abuses his or her position as a public official and conduct engaged in by a public official that could, if proved, give reasonable grounds for disciplinary action against the public official."

Source: (OECD, 2019[124]; OECD, 2016[127]).

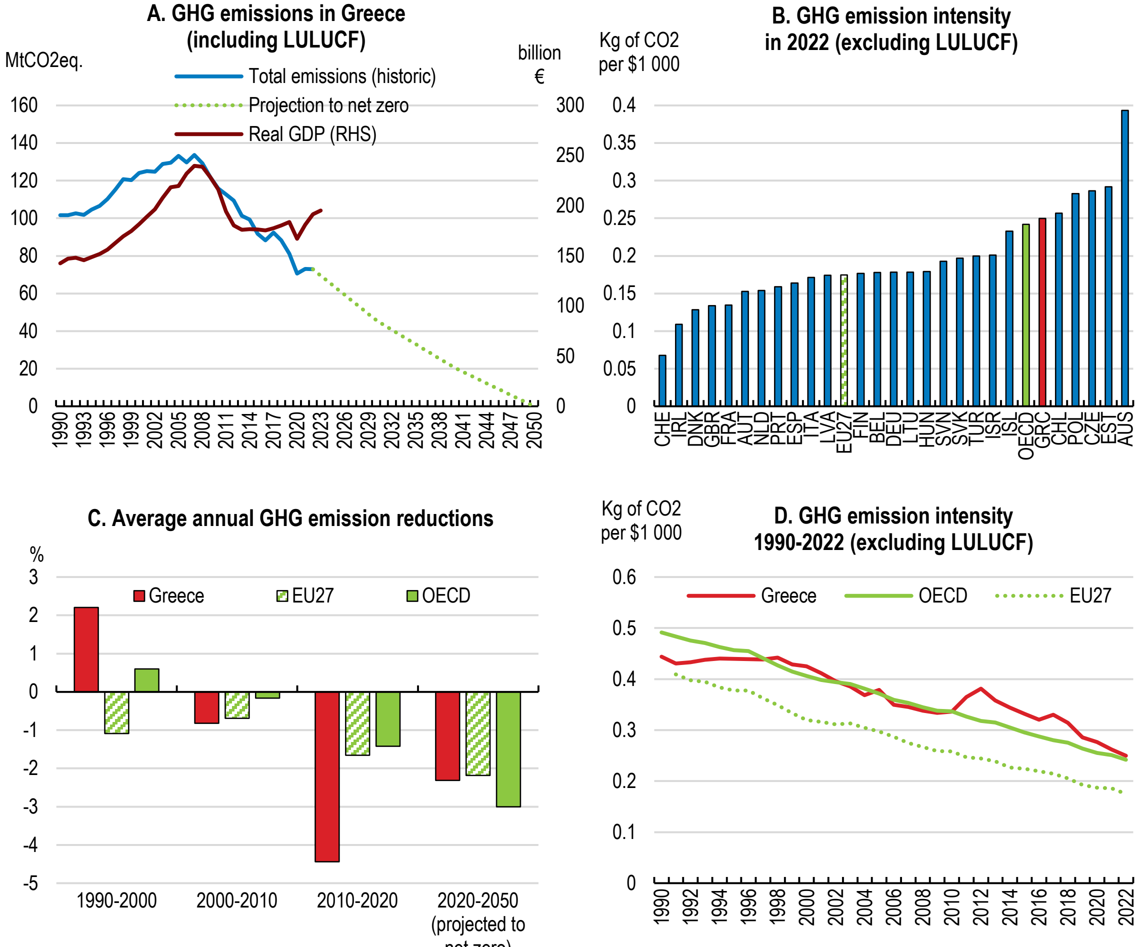
### Table 1.13. Past OECD recommendations on public sector integrity

| Past recommendations | Actions taken since 2023 |
|---|---|
| Train staff in payment processes including at the local level. | In December 2023 the Greek government limited the use of cash in real estate transactions and raised fines for purchases more than EUR 500 in cash. |
| Stagger the appointment of members of boards of independent authorities. | No action identified. |

## Accelerating the green transition

Achieving higher material living standards while meeting Greece's climate objectives will require a faster decoupling of growth from greenhouse gas (GHG) emissions. Over the last two decades, GHG emissions declined more rapidly than the OECD and EU averages (Figure 1.34, Panels A and C). These large emission cuts reflect both a decline in GHG emission intensity on par with OECD and EU economies (Figure 1.34, Panel D), as well as the fact that economy contracted by about one fifth since the beginning of the financial crisis. In 2022, Greece's emission intensity remained close to the OECD average, but significantly above the European average (Figure 1.34, Panel B).

### Figure 1.34. Greece's economy needs to decouple faster to reach emission targets




Panel B: data for 2022 except for CHL (2020).
Source: OECD (2024).

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As discussed in the *2023 Economic Survey*, Greece has committed to ambitious climate targets (OECD, 2023[6]). Greece notably aims at cutting GHG emissions by 55% compared to 1990 levels by 2030, corresponding to reducing emissions by 29% from 2021 levels, and reaching net zero by 2050 (Table 1.14). Coal for electricity generation is planned to be phased out after 2028 or earlier (EC, 2023[4]).

## Table 1.14. Greece has adopted ambitious climate targets and is front-loading the energy transition

Selected climate targets for 2030 and 2050

| | Most recent data (2021/2022) | 2030 | 2040 | 2050 |
|---|---|---|---|---|
| Emissions | -29% of total greenhouse gas (GHG) emissions in 2021 compared to 1990 levels | -55% of total GHG emissions compared to 1990 | -80% of total GHG emissions compared to 1990 level | Net zero emissions |
| Renewable energy | 22% share of renewable energy of gross final energy consumption in 2021 | 44% share of renewable energy of gross final energy consumption | | |
| Electricity | 46% share of renewable energy sources of electricity generation in 2022 | 82% share of renewable energy sources of electricity generation | | |
| Transport | 4% share of energy from renewable sources in transport in 2022 | 29% share of renewable energy sources in transport | | |
| Buildings | 31% share of energy from renewable sources in heating and cooling in 2022 | 46% share of energy from renewable sources in heating and cooling | | |

Source: OECD (2024); (IEA, 2023[128]); Eurostat (2024); (Ministry of Environment and Energy, 2023[129]).

The updated National Energy and Climate plan envisages a rapid energy transition to meet Greece's climate goals for 2030 and beyond. As in many OECD countries, this will be challenging to achieve. Energy use accounted for about 70% total emissions in 2021 (Figure 1.35, Panel A). Transport and buildings are the two largest energy consuming sectors, accounting for almost two thirds of energy use in 2021 (Figure 1.35, Panel B). While electrification is more advanced for buildings, it remains particularly low for transport (Figure 1.35, Panel D). Cutting these emissions entails, first, continuing to rapidly expand the energy production from renewable sources. Greece aims to raise the share of renewables in electricity generation from 46% in 2022 to 80% in 2030. Second, it entails adapting energy use to benefit from the increased energy supply from renewable sources, which requires further progress in electrification. Still close to two thirds of energy were consumed as fossil fuels in 2021 (Panel A). Focusing on electrification of transport and buildings (Ministry of Environment and Energy, 2023[129]), Greece plans to double the share of gross final energy consumption from renewable sources to 44% in 2030 – more than the 39.2% implied by EU rules.

Achieving a swift energy transition would bring various benefits for Greece in addition to contributing to global efforts to limit climate change. For a country that is highly dependent on imported energy like Greece, a rapid transition would enhance energy security. In 2020, Greece met 81% of its energy needs through energy imports (mostly natural gas and oil), compared to an EU average of 57% (Eurostat, 2022[130]). Greece was particularly dependent on gas imports from Russia with 41% of its gas supply in 2021 coming from Russia via pipelines. The share decreased to less than 20% in mid-2023 following Russia's invasion of Ukraine, as liquified natural gas imports expanded rapidly (IEA, 2023[131]).

Transforming Greece's energy supply and improving energy-efficiency would also increase resilience against future energy crises. Households and firms have proven highly vulnerable to the recent spikes in energy prices (OECD, 2023[6]). Already before the energy crisis, in 2020, 17% of households struggled to keep their homes adequately warm, compared to 7.5% in the EU on average. Greece dedicated EUR 9 billion (4% of 2023 GDP) to supporting households and businesses against high energy prices between September 2021 and November 2022. This corresponds to nearly two-thirds of Recovery and Resilience Funds dedicated to the green transition from 2022 until 2026.

### Figure 1.35. Using more energy from renewable sources is key to reach emission targets

A. Sectoral share of total greenhouse gas emissions in 2022

B. Sectoral share of final energy consumption in 2022

C. Total energy supply (in 2023) and consumption (in 2022) by source

D. Sectoral energy consumption by source in 2022

Note: Panel A is the sectoral share of total greenhouse gas emissions excluding land use, land-use change and forestry. In Panel C, fossil fuels include coal, natural gas, hydro (only for the supply side), oil and heat (only for the consumption side). In Panel D, fossil fuels include coal, peat, oil shale, crude, NGL, feedstocks, natural gas, nuclear and oil products.
Source: OECD (2024) and IEA (2024).

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A well-designed policy mix combining both cross-cutting and sector-specific measures can help speed up the energy transition (Table 1.15) (OECD, 2023[6]). Elements of such a policy mix discussed below include harmonising and raising effective carbon prices – while compensating vulnerable groups – to achieve cost-effective emission reductions across sectors; removing remaining obstacles to the expansion of renewable sources; and combining financial support with more stringent environmental regulation to steer and support households and businesses in electrifying and using energy more efficiently. Adaptation policies will need to complement these mitigation efforts to contain the impact of a warming climate on people and businesses, as evidenced by recent wildfires and floods.

### *Strengthening price signals to phase out fossil-fuels across sectors*

Greece's main carbon pricing instrument is the EU Emission Trading Scheme (ETS), in which Greece participates as an EU member. The current ETS covers large facilities in the energy industry and manufacturing. Greece does not impose an explicit carbon price outside the ETS, but more than 90% of energy-related $CO_2$ emissions are covered either implicitly through fossil fuel excise taxes or the ETS, and average emission prices are high in international comparison. There are, however, large differences in the cost of $CO_2$ emissions across users. For example, $CO_2$ emitted by road transport is four- to twenty-fold as expensive as $CO_2$ emitted from other uses, while $CO_2$ emissions from gasoline are twice as expensive as those from diesel (OECD, 2023[6]).

From 2027 onwards, a new EU Emission Trading Scheme (ETS2) will have a wider sectoral coverage and raise effective emission prices mainly in buildings, transport and smaller industry. This will contribute to harmonising emission prices notably by raising still low emission prices for buildings (OECD, 2023[6]). Implementing ETS2 will pose some challenges to households, businesses, and the public sector. Regulated fuel suppliers will need to monitor and report emissions starting in 2025 and later purchase allowances in auctions. Allowances will be capped to reduce emissions by 42% by 2030 compared to 2005 levels. Although the carbon price is expected to be initially lower than in the traditional ETS system, the two systems may be merged in 2030. The government may have to partly compensate vulnerable groups from rising energy costs (EC, 2024[132]), while encouraging energy savings through new targeted income support independent of the level and type of energy consumed (Table 1.15) (OECD, 2023[6]; Blake, Bulman and Joumard, forthcoming[133]).

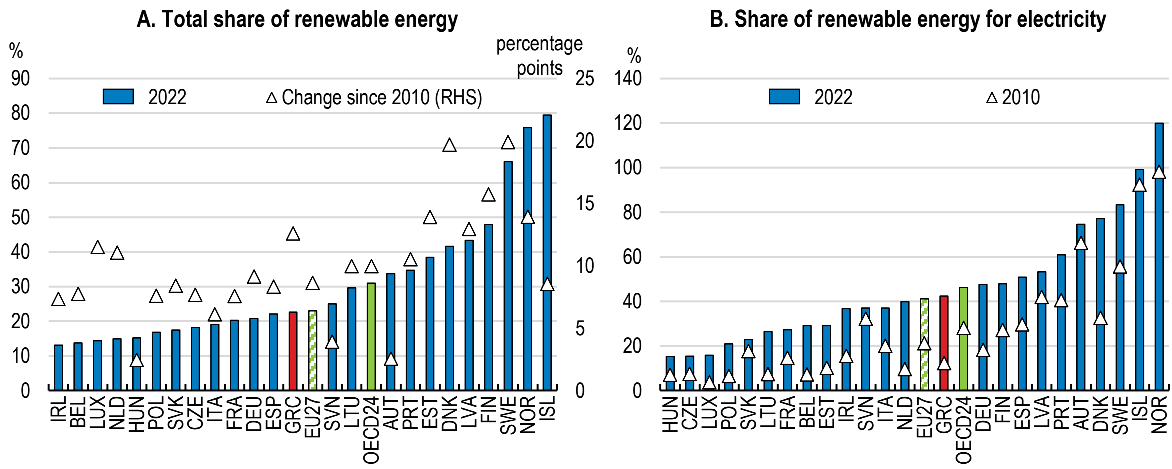
The introduction of ETS2 also provides an opportunity to revise fuel excise taxes and phase out fossil fuel subsidies to harmonise and raise effective carbon prices (Table 1.15). A common minimum price applied to all sources of GHG emissions would achieve emission cuts at lower costs. Fossil fuel subsidies are particularly high in Greece and amounted to EUR 1.9 billion in 2020 (0.8% of 2023 GDP) (IEA, 2023[131]). They notably include reduced excise taxes on diesel used for heating, heating allowances for households, benefits for pensioners and employees of the Public Power Utility (PPC), as well as for oil heating. Benefits are also available for electricity generation in remote areas and islands not yet connected to the mainland electricity grid, with the objective of aligning energy costs with those in the mainland. As electricity connections to islands and remote areas are expanded, these subsidies should be gradually withdrawn. A general strategy should develop a detailed list of subsidies and taxes, including expenditures for tax exemptions, on fossil fuels to plan their phase-out. This would also complement ongoing efforts to develop green budgeting tools, which includes `green tagging' expenditures. Phasing out fossil fuel subsidies may require additional support for vulnerable households given high levels of energy poverty, such as further targeted subsidies to energy renovations or partly compensating vulnerable households for rising energy costs. Despite EU requirements, the updated National Energy and Climate plan does not include a list of fossil fuel subsides, nor specific plans to reduce them (EC, 2023[4]).

### *Accelerating the expansion of renewable electricity generation*

Greece is making rapid progress with the expansion of renewable energy sources. Energy produced from renewable sources met 23% of final energy consumption in 2022, up from 10% in 2010, which brings Greece close to the EU average (Figure 1.36, Panel A). This sizeable increase mostly reflected growing electricity generation from renewable sources – notably from solar photovoltaics and wind (Panel B) (IEA, 2023[131]).

Meeting the 2030 target for electricity generation from renewable sources requires further accelerating the pace of the renewable expansion (Figure 1.36, Panel B). Greece aims to nearly double the share of electricity generated from renewable sources, with an increase of about 40 percentage points. Renewable sources are projected to account for nearly all electricity – 96% to 98% – from 2035 onwards (Ministry of Environment and Energy, 2023[129]). Rising demand from economic growth and increased electrification of energy use mean that generation capacity must increase overall (IEA, 2023[131]). Greece plans to more than double generation capacity from renewable sources from 12 GW in 2021 to 27.3 GW in 2030, and to increase sixfold to 72 GW in 2050. Storage capacities are expected to increase from 0.7 GW in 2021 to 5.3 GW in 2030 and 24.8 GW in 2050 (Ministry of Environment and Energy, 2023[129]; IEA, 2023[131]).

## Figure 1.36. Greece is adding new capacity from renewable sources at a growing pace




Note: Panel A and B: Share of final energy consumption.
Source: Eurostat (2024).

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A mix of policies will support this expansion. Financial support has been adapted to assure a pricing mechanism that encourages investments in renewable sources (Busch et al., 2023[134]). Since 2022, most support has been provided through auctions awarding contracts-for-difference (CFD) (IEA, 2023[131]). CFDs provide subsidies if market prices fall below a bid price but require recipients to repay excess profits if market prices are above the bid price. This is expected to add 4.2 GW until 2025, or 19% of 2021 total electricity generation capacity. Previously, support has been provided through feed-in-tariffs (FIT) and feed-in premiums (FIP), which can entail greater fiscal costs compared to CFDs. FITs and FIPs still provide limited financing mostly for smaller scale and innovative renewable energy projects, including for offshore wind farms expected to add 2 GW of capacity by 2030 (9% of 2021 total generation capacity). Greece also provides subsidies and tax breaks to cover 30-65% of investment costs for specific renewable electricity projects, such as small hydro plants or biomass co-generation plants. To subsidise storage, Greece provides grants for 0.9 GW of new storage capacity (4% of 2021 total generation capacity) until 2025.

Despite all these positive initiatives, there is room to assure investors about long-term funding for the energy transition. Financial support for renewable energy projects are mainly funded through the Special Account for Renewable Energy Sources. Revenues from the EU Emission Trading Scheme (ETS), and from excess profits, which some energy producers are obliged to repay in case of high electricity prices, are major financing sources for this account. During the energy crisis, Greece reallocated most ETS revenues – 74% - from the Special Account to finance energy subsidies for consumers and businesses, which was only partly compensated for by higher revenues from excess profits (IEA, 2023[131]). The EU requires that 50% of ETS revenues are spend on the energy transition. The allocation of ETS revenues is decided annually, and Greece has not transposed EU spending requirements of ETS revenues into national law, giving the government discretion to use EU ETS revenues for short-term needs unrelated to the energy transition.

Licensing procedures have been simplified to reduce delays in the implementation of renewable energy projects (IEA, 2023[131]). This is expected to decrease processing time from five to two years. In 2020, Greece abolished requirements for licenses for generation for renewable energy projects and replaced them with certificates that require less documentation and can be applied for via an online platform. The energy regulator must grant certificates within 20 days if all requirements are met. In 2022, Greece changed the procedures for obtaining grid connection for renewable projects by abolishing requirements to apply for a provisional offer. Projects can now directly apply for a final offer. Grid operators have clearly

defined deadlines to process applications, not exceeding 14 months if all conditions are met. The law also requires creating a one-stop-shop for all licenses and permits (PSAPE), which has yet to be implemented.

Reducing remaining delays in obtaining licenses and permits would help investments in renewable energy projects grow further. Reports suggest that limited public sector capacity often leads to delays (EC, 2023[53]). The energy regulator has a key role for licensing energy market participants, but it is not clear whether it has the capacity to process applications quickly. In 2021, it employed only half of its budgeted staff, likely reflecting difficulties to offer competitive salaries (IEA, 2023[131]). Moreover, reforms did not address environmental licenses, which can require permissions from multiple authorities and delay projects by several years (IEA, 2023[131]). Timely implementation of the planned one-stop shop would help simplify and accelerate procedures, including for environmental licenses. In addition, identifying priority locations for developing renewable energy projects based on environmental impact assessments and in consultation with stakeholders would increase chances that more applications can be processed quickly and successfully.

Limited grid capacity remained a bottleneck for expanding electricity production from renewable sources in recent years. In 2021, about half of planned capacity from solar photovoltaic could not be installed because of insufficient grid capacity (IEA, 2023[131]). Meanwhile, from 2019 until 2023 operators tripled investments into the grid to EUR 1.2 billion in 2023 (0.5% of 2023 GDP). They are planning additional investments of at least EUR 450 million (0.2% of 2023 GDP) by 2027, of which EUR 100 million are funded through Greece's Recovery and Resilience Plan. In addition, a 2022 law aims to improve the allocation of new projects to existing grid capacities. Grid operators are required to reject applications in areas with insufficient capacity, while providing publicly available updates on free capacity at substations every three months. The law also allows renewable energy developers to build private grids connecting projects with consumers, independently of obtaining a grid connection offer. Monitoring evolving investment needs as capacity is being added to the grid will be critical to reduce and avoid future bottlenecks (Table 1.15).

### *Accelerating the shift to public transport and zero emission cars*

Electrifying transport will be difficult in most OECD countries, but it may be particularly challenging in Greece. In 2021, transport accounted for 22% of total GHG emissions and 36% of final energy consumption (Figure 1.35, Panel A and B). As discussed in the 2023 Economic Survey, Greece relies more intensively on cars than other EU countries, both in terms of having more cars per capita and a larger share of passenger and freight transport using roads. At the same time, it spends limited resources on buying new cars, reflecting limited household budgets for vehicle purchase (Figure 1.37, Panel A) (OECD, 2023[6]). When accounting for its slow fleet renewal, Greece lags most other EU countries in shifting to zero-emission cars, although the take-up is gathering pace (Figure 1.37, Panel B). Despite these challenges, sizeable emission cuts in transport can be achieved both by using available resources to shift to zero emission cars more effectively and by making public transport more attractive (OECD, 2023[6]; Leidecker et al., 2022[135]).

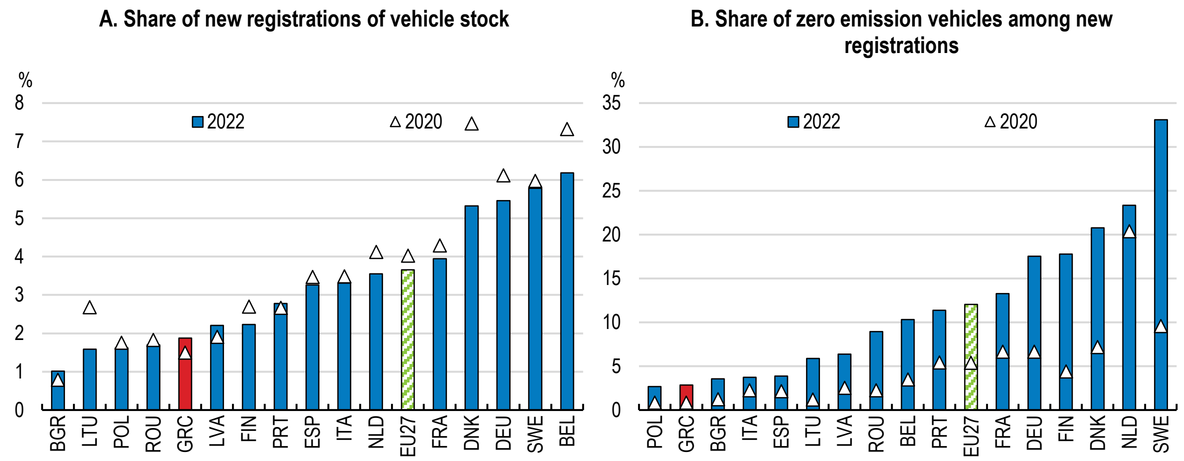
#### *Electrifying road transport*

Greece aims to achieve a share of 30% of zero emission vehicles (battery-electric vehicles) among new registrations by 2030 (Ministry of Environment and Energy, 2023[129]). This will likely require stepping up current efforts. To promote the take-up of zero emission cars, Greece offers purchase subsidies of up to EUR 8 000 in addition to a range of tax benefits for registration and ownership. This is complemented by an additional EUR 1 000 if a car older than 10 years is scrapped or the buyer is less than 29 years old (ACEA, 2023[136]). Additional measures included in the Recovery and Resilience Plan aim at electrifying transport by replacing 2 000 old taxis and 250 busses with electric ones (Hellenic Republic, 2023[137]). These measures are welcome and highly cost-effective. However, they will have a limited impact on

electrifying transport. For example, taxis accounted for just 0.2% of passenger kilometers travelled on land in 2019 (Leidecker et al., 2022[135]).

Targeting and expanding subsidies for zero emission cars could help accelerate the greening of the vehicle fleet, especially when subsidies are made contingent on scrapping old vehicles. Similarly, subsidies could be restricted to smaller EVs, as people who buy larger vehicles are probably more willing to shift to EVs even without a subsidy.

## Figure 1.37. Adoption of zero emission cars is lagging also when accounting for slow fleet renewal




Note: Panel A: Share of total new registrations in 2022 (2020) of stock of registered vehicles in 2021 (2019); Panel B: Share of new registrations for zero emission vehicles over total new registrations in same year.
Source: OECD calculations based on (European Commission, 2023[138]); Panel B: Eurostat.

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To make EVs more attractive, the charging network needs to densify. Greece targets to have 12 000 charging points in 2025 and 25 000 in 2030 (IEA, 2023[131]). By September 2023, it had about 4000 publicly available charging points installed, and provided subsidies for an additional 8 000 charging points focused on strategic urban and suburban locations (Hellenic Republic, 2023[137]; Ministry of Environment and Energy, 2023[129]). An online platform that will show all publicly accessible charging points is currently being developed. Additional efforts may be needed. An EIB study from 2021 suggested about 13 000 charging points may be needed by 2025 to support EV roll out, growing between 40 000 to 100 000 charging points by 2030 (Ministry of Environment and Energy, 2023[129]).

Complementing purchase subsidies and a denser charging network with tighter restrictions on using fossil-fueled cars could make them more effective. Greece also provides subsidies for 8 000 publicly accessible charging points, focusing on strategic urban and suburban locations (Hellenic Republic, 2023[137]).Some cities, such as Athens and Thessaloniki, already impose restrictions on cars, for example to reduce congestion or pollution (OECD, 2023[6]). Measures to exempt electric vehicles from these restrictions and granting them free parking are welcome. Expanding restrictions based on vehicle emissions, for example through road pricing, congestion charges, priority lanes, or emission-free zones in cities where other transport modes are readily available, would add to the benefits of zero emission cars (Table 1.15). Several cities are planning to introduce or tighten restrictions to allow only zero or near-zero emission cars (e.g. battery or plug-in hybrid electric vehicle) to enter certain areas. These include Copenhagen, Amsterdam, Brussels, Paris, London, Berlin, Montreal and Seattle, while some cities – such as Rotterdam, Shenzhen, and Luoyang – are focusing on zero-emission zones for freight vehicles (ICCT, 2022[139]).

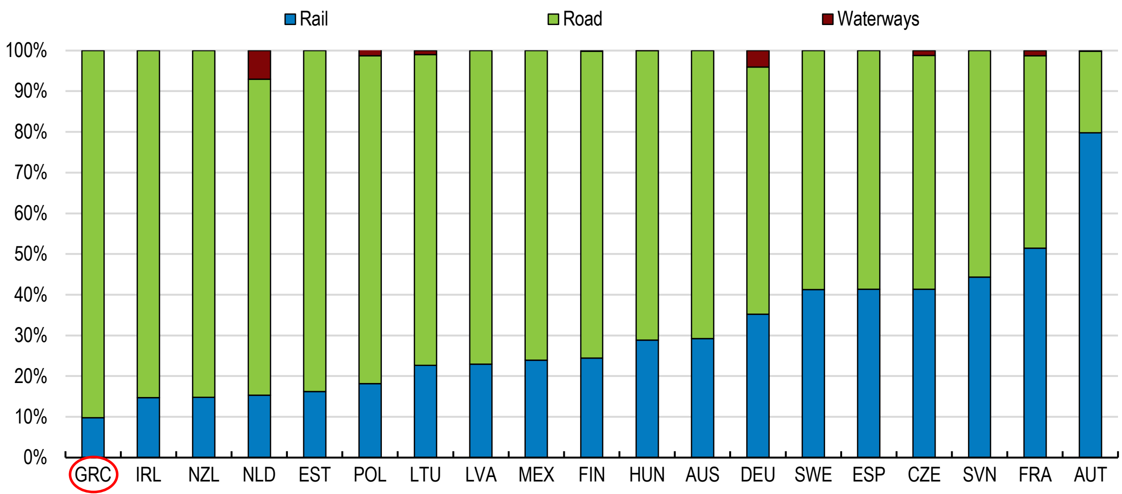
*Shifting transport off the road*

Greece is taking several measures to improve public transport that support a shift away from cars. Investments worth EUR 3.6 billion (1.6% of 2023 GDP) are expanding and upgrading the metro system in Athens and Thessaloniki (Hellenic Republic, 2023[137]). Several ongoing projects, totaling EUR 4.375 billion (2% of 2023 GDP) until 2027, are expanding and upgrading Greece's railway network. In January 2024, Greece announced plans to merge several state-owned enterprises that oversee railway infrastructure maintenance and development to improve their performance. These measures are welcome and can help to reduce emissions as well as high levels of congestion (OECD, 2023[6]).

More investments may be needed, notably in the railway system. A well-developed railway system will be key to provide alternatives to cars for travels outside of urban areas, which in 2019 accounted for more than two thirds of passenger kilometers travelled on land (Leidecker et al., 2022[135]). However, the railway network is among the least dense in the OECD and existing lines are used less frequently compared to other OECD countries, while quality perceptions of the railway system have been weak (OECD, 2023[6]). This likely reflects a lack of public investment in the past when – following the economic crisis – generally low levels of infrastructure investments for inland transport were predominantly focused on road transport (Figure 1.38) (ITF, 2022[140]; OECD, 2023[6]).

### Figure 1.38. Investing more in rails would support the shift from cars to public transport

Composition of inland infrastructure transport investment, 2018-2022, in percent




Note: Inland transport infrastructure comprises rail, road and waterways.
Source: OECD Transport infrastructure investments and maintenance spending (2024).

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Making public transport more seamless will be key to improve its attractiveness. Across OECD countries, time lost when switching public transport modes, or public transport not covering the entire journey, contributes to cars often remaining the preferred choice (OECD, 2023[6]). Promoting mobility-as-a-service and integrated ticketing – i.e. offering a wide range of transport services through a single, digital customer interface and shared transport modes such as on-demand taxi-buses to cover the last kilometre can make public transport more convenient. Better incorporating transit in urban development will be crucial to bring public transport terminals closer to where people live, work and shop (ITF, 2022[141]; ITF, 2021[142]).

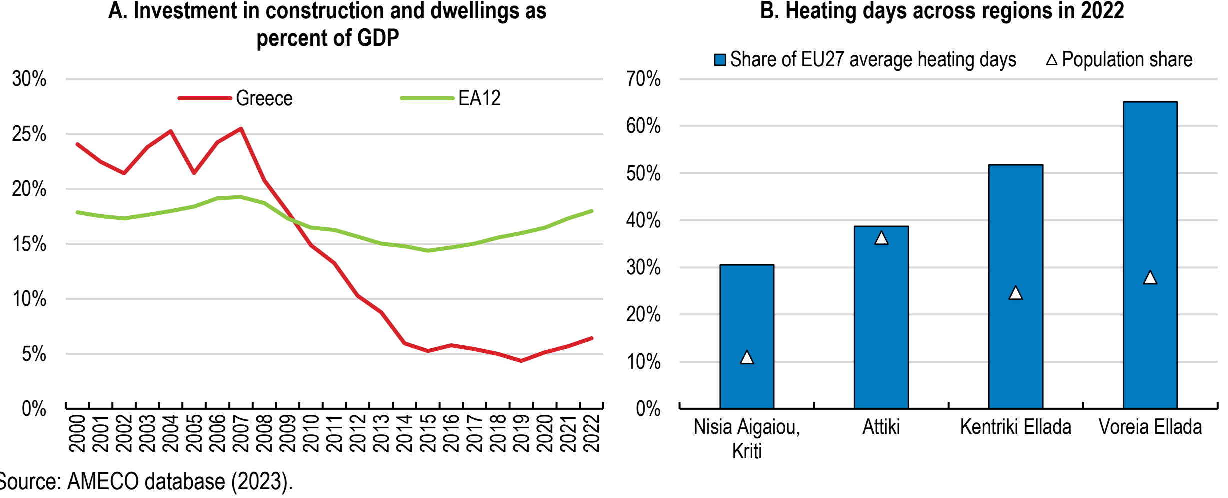
### *Reinforcing electrification and energy-savings in dwellings*

Greece, like most OECD countries, has sizeable potential for saving energy and cutting emissions from renovating buildings. Due to its warm climate, GHG emissions from buildings account for only 8% of total

emissions, compared to 10% in the OECD average or 14% in the EU average. Meanwhile, Greece's building stock is old and often lacks proper insulation, and many buildings rely on fossil fuels for heating. Compared to OECD countries in similar climate zones, Greece consumes more energy and produces more emissions from buildings (OECD, 2023[6]). With buildings accounting for 28% of total energy use, the largest energy user after transport, adapting energy use in buildings will be important for achieving the energy transition.

While deep renovations are often considered to be cost-effective in reaching very high levels of energy efficiency (IEA, 2023[131]), these require large upfront investments and are probably more difficult to achieve in Greece than in other OECD countries. Average costs for deep renovations of EUR 30 000 in Greece were equivalent to three times the annual median income in 2022 (BPIE, 2020[143]), and investment in buildings has been low since 2008 (Figure 1.39, Panel A), pointing to limited financial resources. Many households would require extensive support, while fiscal space is limited. At the same time, emission reductions from deep renovations for heating – as well as for cooling, which consumes 50 times less energy than heating – tend to be lower in warmer regions (Figure 1.39, Panel B) (MoEE, 2018[144]). Reaching net zero emissions from buildings would require a stronger focus on replacing fossil fuels for heating and cooling systems.

### Figure 1.39. Cost for energy renovations add to a large investment gap for buildings




Source: AMECO database (2023).

StatLink https://stat.link/doxzac

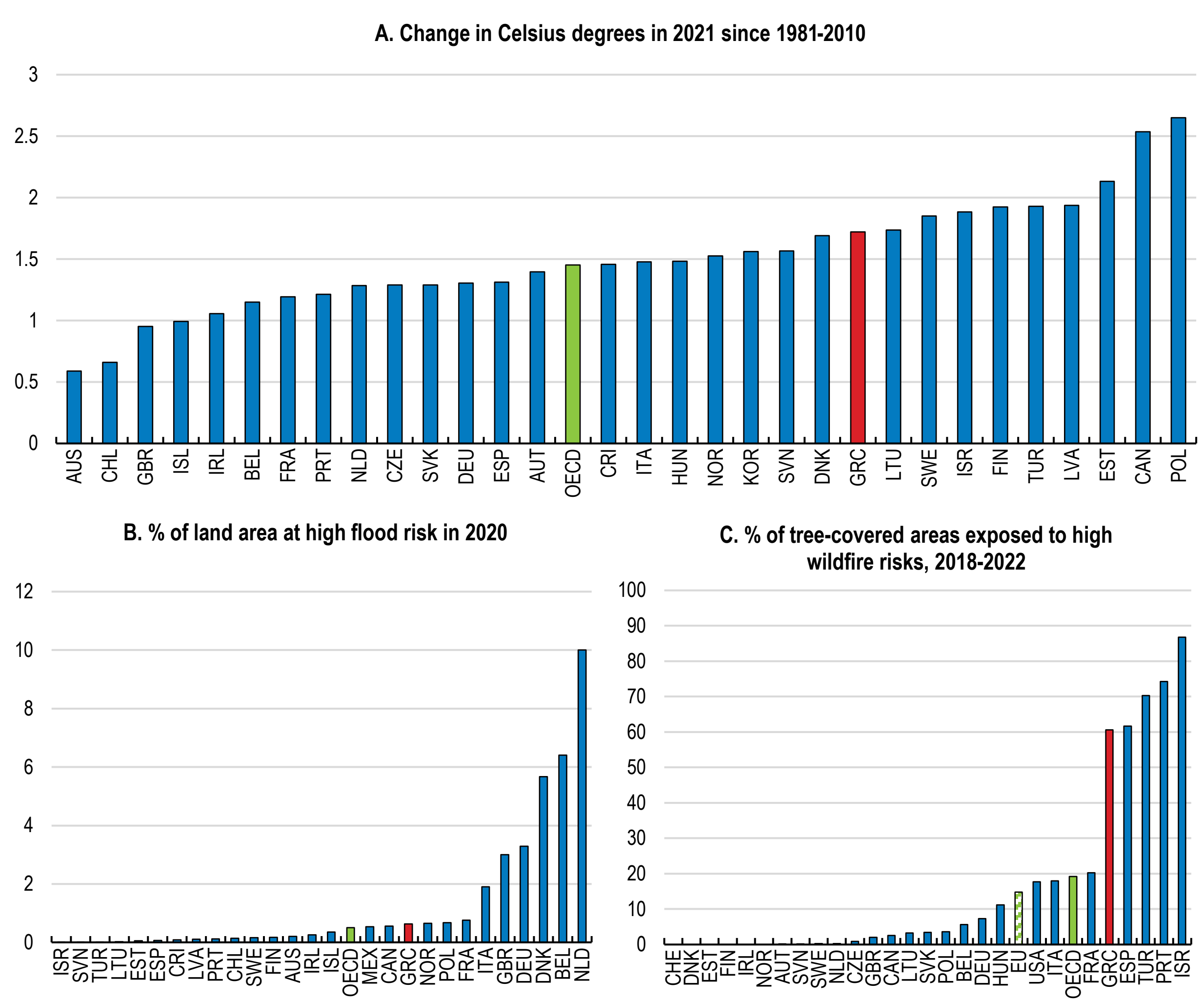
Greece should expand renovations while focusing on phasing out fossil fuels and improving the energy-efficiency of those buildings with the highest energy needs. Plans for upgrading 43% of all dwellings by 2050 will be insufficient to achieve EU targets for building emissions, calling for additional efforts (EC, 2023[4]). At the same time, the actual pace of renovations is slower than planned, with about 47 000 renovations per year compared to a NECPR target of 80 000 per year by 2030 (Ministry of Environment and Energy, 2023[129]). Focusing public support for renovations, such as through the Savings at Home Programme, on colder regions and on vulnerable households affected by energy poverty would be most effective, but the programme could do more to promote deep renovations where these are the most cost-effective solution. Current limits on loan and grant support imply that opting for deep renovations still imposes large costs on households, and the choice often falls on shallow but potentially less effective renovations, particularly in the case of low-income households. Greece could consider making some financial support contingent on committing to a renovation roadmap and combining grant and loan components to support low-income households with the higher costs of deep renovations. This could be complemented with stricter regulatory measures, such as a timeline for the complete phase-out of fossil fuels in buildings, or a gradual tightening of minimum energy consumption standards for all existing

buildings. Such regulatory measures could encourage more investments in energy renovations, including in new heating and cooling systems (Table 1.15) (OECD, 2023[6]).

### *Containing the impact of future extreme weather events*

As a Mediterranean country, Greece is particularly vulnerable to a warming climate (OECD, 2023[6]). Average temperatures in Greece already increased by more than in most other OECD countries (Figure 1.40, Panel A). Risks for damages from forest fires and floods are higher than elsewhere (Panels B and C), having grown more frequent and severe in recent years (OECD, 2023[6]). In September 2023, the region of Thessaly was hit by Storm Daniel with unprecedented rainfall, which led to catastrophic floods costing at least 15 lives and causing economic damages of more than EUR 2 billion (1% of 2023 GDP) (HVA, 2023[145]). Additional impacts of climate change, discussed in the *2023 Economic Survey*, include more frequent heat waves, changing precipitation and seasonal patterns as well as coastline erosion.

## Figure 1.40. Greece faces high risks from a warming climate




Note: Panel A: Data for Costa Rica and Poland refer to 2020. Panel B: Areas where physical hazard is likely to recur over period of 10 years; Panel C: Percentage of tree-covered area exposed to very high or extreme fire danger for more than three consecutive days, annual average over period 2018-2022.
Source: (Maes et al., 2022[146]); OECD and IEA (2022).

StatLink https://stat.link/kfxu96

This is posing long-term economic challenges for firms and workers to adapt, notably in agriculture and tourism (OECD, 2023[6]). Besides imposing immediate costs on people and businesses, these hazards have important knock-on effects on the economy: Storm Daniel slowed down GDP growth in the second half of 2023 as it severed transport links between northern and southern Greece. Compensating damages from extreme weather events also implies fiscal contingencies that will make it more difficult to achieve sustainable public finances (OECD, 2023[6]; Sutherland et al., 2024[147]).

Policies can reduce the costs of extreme weather events for people and businesses by reducing vulnerabilities and facilitating remedial measures when damages occur. Evidence suggests that adaptation measures have high benefit-cost ratios (Sutherland et al., 2024[147]). However, owing to economic and behavioural barriers – such as externalities, lack of information, or moral hazard – adaptation is often insufficient. A mix of policies – including public investments and steering behaviour through better information, economic incentives and regulations – can address these barriers (Table 1.15) (Sutherland et al., 2024[147]).

Investing in protective and resilient infrastructure can reduce damages from extreme weather events (OECD, 2023[6]). A first report on the floods in Thessaly finds that improvements in flood defense and other related infrastructure could largely reduce the impact of future inundations (HVA, 2023[145]). Greece's Recovery and Resilience Plan includes several welcome measures which will improve the resilience of its electricity network, adapt the built environment to warmer temperatures, and improve the efficiency of the water system (OECD, 2023[6]). Swiftly identifying additional investments and implementing these will be crucial to reduce damages from future extreme weather events. Identifying remaining investment needs entails swiftly finalising Regional Adaptation Action Plans and concluding the ongoing revision of Greece's National Adaptation Strategy.

Greece is improving access to information and emergency response to reduce exposure and better protect people (OECD, 2023[6]). In late 2021, it created the Ministry of Climate Crisis and Civil Protection to coordinate civil protection. The Ministry also acts as a contact point for information on self-protection and risk maps. Several initiatives are aiming to improve data collection and disseminating information to stakeholders. Meanwhile, investments to upgrade emergency equipment are progressing, for example with investments of EUR 220 million (0.1% of 2023 GDP) to buy new fire engines, aircraft, and rescue vehicles (EIB, 2024[148]).

Broad insurance coverage against climate risks can lessen the macroeconomic impact of disasters. Like many other OECD countries, Greece partially compensates private losses after disasters have occurred, which implies rising fiscal costs as weather events grow more extreme (OECD, 2023[6]). Formalising risk sharing by promoting insurance can limit fiscal contingencies. By providing payouts, insurers diminish uncertainty and bolster overall spending in rebuilding efforts, thereby speeding up the recovery after a natural disaster (Sutherland et al., 2024[147]). If correctly priced, insurance policies can also lead to changes in behaviour and risk reduction. In Greece, insurance coverage for damages from extreme weather events remains comparatively low (OECD, 2023[6]). In 2023, only about 15% of homes were covered by property insurance (EAEE, 2023[149]). Meanwhile, insurance costs are relatively high – despite a large number of national and international competitors – likely reflecting limited risk pooling because of the low coverage (OECD, 2023[6]).

Greece is taking measures to formalise risk sharing, including by promoting insurance coverage, and raise financial buffers as natural disasters are becoming more frequent and severe. Greece increased its permanent reserve for compensating damages by EUR 300 million to EUR 600 million annually (0.3% of 2023 GDP), financed by a permanent tourism surcharge (Hellenic Republic, 2023[64]), to anticipate future fiscal pressures. In addition, in line with recommendations from the 2023 Economic Survey (Table 1.15), businesses with annual turnover above EUR 2 million are required to get insurance from 2024 onwards, while smaller businesses and households are encouraged to take up insurance through a discount on their

property tax liabilities. Annual fiscal costs for the latter measure are estimated at EUR 26 million (0.01% of 2023 GDP) (Hellenic Republic, 2023[33]).

These measures are welcome and should be expanded further to cover households and smaller firms. The low insurance coverage among households and large number of small firms below the threshold requiring property insurance implies that large fiscal contingencies will likely remain. To promote coverage among these groups, Greece could strengthen financial incentives, notably for low-income households, and follow other OECD countries in making property insurance mandatory more broadly (Sutherland et al., 2024[147]; OECD, 2023[6]). For example, Switzerland mandates building insurance against natural catastrophes in most of its cantons, while private insurers in France must include insurance against flood risk in property insurance policies. Such mandatory insurance should be carefully designed to assure affordability also for low-income households, considering public support for example through re-insurance, and monitoring insurance markets to assure competitive pricing (OECD, 2023[6]).

## Table 1.15. Past OECD recommendations on achieving the green economy transition

| Past recommendations | Actions taken since 2023 |
|---|---|
| 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. | No action identified. |
| Ensure network pricing provides sufficient financing and incentives to maintain and develop the network's capacity.<br>Improve price comparison tools in the retail electricity market. | A new framework for retail electricity tariffs was introduced,in 2024 including fixed, month-to-month, variable ex-ante and variable time-of-use components. |
| Enforce existing restrictions on high-emission cars.<br>Set out a timeline for gradually tightening restrictions for using fossil-fuel cars in cities through congestion charges and low-emission zones.<br>Base all vehicle taxes on $CO_2$ emissions.<br>Replace purchase grants with subsidised loans to leverage more private financing and encourage the shift towards zero-emission cars.<br>Implement distance-based road-usage charge to maintain transport tax revenues. | Ongoing efforts aim at digitalising and allowing cross-validation of records on vehicle insurance, emission control cards, and annual registration charge to enforce emission-based taxation. |
| Raise investment in public transport informed by cost-and-benefit analyses. For railways, prioritise quality improvements of existing lines to reach EU average network usage.<br>Use competitive tenders to allocate public service contracts to railway operators. | Work is ongoing to expand the metro in Athens (Line 4) and to start the metro system in Thessaloniki. In addition, over 1 000 new buses are being put in service in the Athens and Thessaloniki metropolitan areas. |
| Mandate a timeline of tightening minimum energy efficiency standards, to apply to all existing buildings by 2050.<br>Substantially upscale plans for supporting renovations with interest-subsidised loans that can be repaid via energy savings to leverage more private financing. | No action identified. |
| Conduct risk assessment for damages from climate change to anticipate exposure, private capacities to bear costs and to identify governmental re-insurance needs.<br>Formalise risk-sharing, for example by making property insurance for extreme weather events compulsory for all buildings. | Compulsory insurance for larger businesses and incentives for insurance for smaller businesses and households were legislated in 2023. |
| Ensure water prices reflect water scarcity and supply costs.<br>Replace social water tariffs with income transfers not directly linked to water consumption. | No action identified. |
| Incorporate planning for the future climate into infrastructure projects, including by considering shadow carbon prices. | No action identified. |

# Main findings and recommendations

| MAIN POLICY FINDINGS | RECOMMENDATIONS (Key recommendations in bold) |
|---|---|
| **Improving macroeconomic and fiscal policies** | |
| Public debt has been on a declining trend since 2020 and regained its sovereign investment grade rating, but it remains high. GDP growth is projected to pick up and the government plans primary surpluses around 2.4% of GDP in 2024 and 2025. | **Maintain primary fiscal surpluses of 2% of GDP in 2024-25, as planned.**<br>**Keep public debt on a firmly declining path through more efficient public spending, broader tax bases and growth-enhancing reforms.** |
| Spending pressures for public investment, education and health will remain sizeable for years to come, including after the completion of current EU funding. | **Gradually shift public spending towards areas supporting growth and equity, building on regular spending and public investment reviews, while containing staff expenditures and maintaining efforts to reduce pension expenditures relative to GDP.** |
| At the aggregate level, business loans appear mostly healthy, but the heterogeneity of the Greek businesses and the numerous small firms require closer monitoring. | Develop micro-data driven approaches to better identify and monitor vulnerable borrowers. |
| The share of non-performing loans on bank balance sheets has declined substantially but remains high. At the same time, distressed debt held by credit servicers amount to 34% of GDP. | Carefully monitor the evolution of non-performing loans and distressed debt. |
| Public sector digitalisation and workforce management can increase spending efficiency to create fiscal space. | Improve the allocation of civil servants by swiftly completing the comprehensive human resources management system, promoting staff mobility and making better use of performance assessments.<br>Continue improving digital government projects, for example through project management offices to improve coordination and monitoring, and by using procurement systems adapted to ICT and digital projects. |
| Tax evasion has decreased significantly and the authorities took measures to foster the digitalisation of transactions and invoicing, but the VAT compliance gap remains large. | **Continue efforts to strengthen tax compliance by promoting digital transactions, limiting cash transactions, and rationalising tax expenditures**. |
| Numerous tax expenditures, notably from widespread VAT reduced rates and exemptions, reduce public revenues. Evidence on their effectiveness is weak and VAT expenditures favour wealthier households. | **Phase-out VAT reductions and exemptions.**<br>Evaluate regularly the costs and benefits of all tax expenditures and subsidies. |
| Health costs from smoking and obesity are high, but taxes on harmful goods, notably unhealthy food and cigarettes, are low. | Introduce an excise tax on food that is high in fat, sugar and salt and raise excise taxes on cigarettes. |
| Despite reductions in recent years, the labour tax wedge and the marginal tax rate remain relatively high, notably for low-income earners, reflecting high social security contributions levied at a flat rate and high tax-free personal income thresholds. | Decrease tax rates for low-wage earners by lowering social security contributions while reducing personal income tax-free thresholds. |
| **Raising employment and incomes** | |
| The minimum wage has increased rapidly since 2019 and further increases are planned until 2027. Low-wage workers work predominantly in small firms with low profit margins. | Closely monitor the effects of the minimum wage on employment.<br>Consider introducing in-work benefits and reducing employer social security contributions for low-wage workers to mitigate the impact of labour cost increases. |
| Unemployment benefits cover only a small share of the unemployed and fails to protect recipients from poverty, while weakening incentives for employment among low-wage earners. | Reform unemployment benefits to link benefits with past earningsand raise benefit durations linking them to contributory history, while improving work incentives. |
| Youth skills do not appear to match labour market demand. The take-up of vocational education is low and students lack sufficient information about future career opportunities. | **Strengthen vocational training at the secondary level and increase the share of work-based training.**<br>Strengthen the information on the web-portal of educational opportunities. |
| The social safety net is fragmented and some programmes have low benefit take-up. The eligibility conditions are heterogenous and the level of the minimum income benefits is low. | **Consolidate the different support programmes for low-income households and simplify eligibility conditions, while increasing the level of minimum income benefits.** |
| Despite some progress in recent years, difficulties in access to childcare continue to hold back women in the labour market. Low spending on childcare contrasts with high birth grants. | **Improve access to childcare by shifting public spending from birth grants towards childcare facilities.** |
| Gender stereotypes likely contribute to a low uptake of childcare services. | Further strengthen gender stereotype awareness campaigns and equality labels for businesses. |

| Supporting the transition towards a green and sustainable economy | |
|---|---|
| Greece's National Energy and Climate Plan does not list, nor foresees the phasing out of, comparatively high fossil fuel subsidies. | **Phase out fossil fuel subsidies, including on islands whenever alternative energy sources are available.** |
| Delays in obtaining licences for renewable energy projects are slowing down investments in renewable energy sources. Recent reforms have simplified procedures for generation licenses and grid connection but not for environmental licenses. | **Swiftly implement the planned one-stop-shop for renewable energy projects and review procedures for environmental licenses.**<br>Identify priority locations for developing renewable energy projects based on environmental impact assessments and consultations with stakeholders. |
| Emissions from the transport sector are high. Subsidies for electric vehicles (EV) have stronger effects when EVs often replace old and polluting vehicles. Diesel taxes do not reflect all of the negative effects of its use on the environment and health. | . Finance further targeted EV subsidies by raising excise taxes on diesel. |
| Public transport is used less than in other European countries. | Continue to expand the supply of public transport, including through maintenance efforts for the railway system. |
| Poor insulation of dwellings and old heating systems leads to high emissions, especially in the colder regions where potential energy savings are the largest. Investments in buildings have suffered years of neglect. Energy poverty, despite a recent decline, remains high. | Expand and focus financial support for renovations on replacing fossil-fuel based heating systems and improving energy-efficiency in colder regions and the worst performing buildings.<br>Ensure the right mix between loan and grant components to allow low-income households to opt for deep renovations. |
| Damages from climate events are becoming more frequent and severe. Recent measures have made building insurance mandatory for larger businesses and provide incentives for smaller businesses and households to take up insurance. Low insurance coverage for climate events still implies significant fiscal contingencies. | Further expand requirements for mandatory property insurance against damages from climate change to cover smaller businesses and households while assuring affordability, for example through re-insurance and providing support for vulnerable groups. |
| Climate change will pose challenges for public infrastructure and is likely to cause damages that can be mitigated through appropriate planning. | **Incorporate climate hazard planning into the preparation of infrastructure projects, including by considering shadow carbon prices.** |
| **Improving economic governance and fighting corruption** | |
| A lobby register became operational in December 2022. It requires all professional lobbyists to register but still has very few entries. | Strengthen awareness campaigns and penalties to expand the lobby register.<br>Extend registration requirements to those engaged in lobbying but not being explicitly paid for it, such as trade associations and NGOs. |
| Recent laws have strengthened whistleblower protection in some cases. However, whistleblower protection remains restricted to a narrow definition of misconduct not including breaches of national law. | **Further strengthen whistleblower protection by broadening the concept of misconduct on which reporting is protected to include breaches of national law and serious violations of codes of conduct.** |

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# 2 Boosting firm growth and innovation

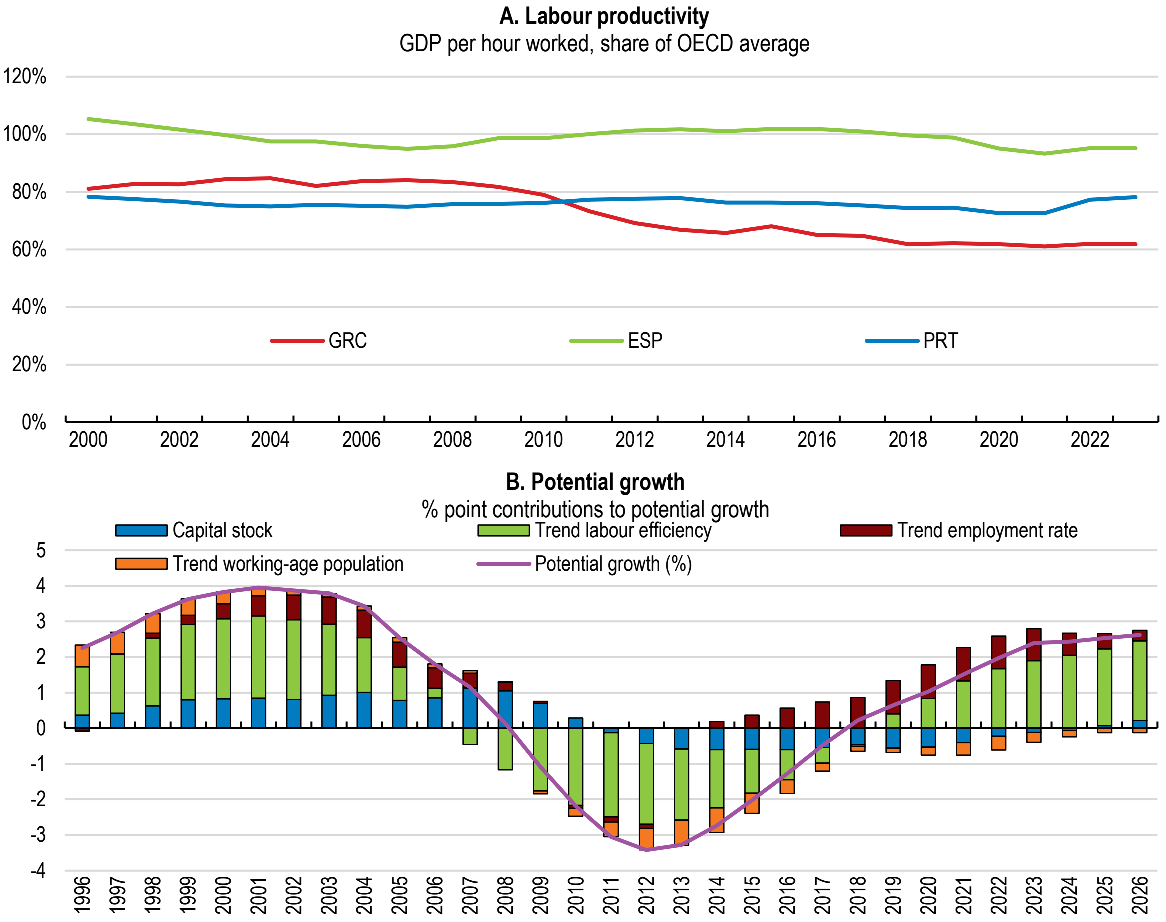
Antoine Goujard, Timo Leidecker

Boosting firm growth and innovation is crucial to raise Greece's wages, employment and living standards. Aggregate productivity and investment have declined over the past two decades. Despite the strong economic rebound following the COVID-19 crisis, performance gaps did not narrow substantially. The business sector is dominated by many micro and small firms and many of them are failing to increase their productivity and to adopt new technologies. Access to finance remains a key issue and significant skill shortages have emerged. The EU and the government are stepping up funding for business innovation, research and development, training and entrepreneurship. This is an opportunity to improve the management of public business support. The new programmes should be regularly evaluated to strengthen the take-up by more productive enterprises and avoid the risks of subsidising low-productivity or large incumbent firms. Progress also hinges on lifting the remaining barriers to competition in services sectors and further enhancing the quality of regulations. Providing stronger support for training programmes in smaller firms would help them upgrade the skills of their workforce, including managers, and ease new technology adoption and internationalisation. The new insolvency framework and the 2024 reform of the judicial system are expected to ease access to finance, resource reallocation and the adaptation of firms to a rapidly changing international environment.

## Introduction

Over the past two decades, Greece's productivity has not been able to catch up with the OECD average (Figure 2.1, Panel A). Following the sovereign debt crisis, a collapse of business and public investment and the resulting falling productive capital stock has been one of the main factors, along with weak total factor productivity (TFP) growth, which is closely related to innovation. Both of these have led to slow labour productivity growth, dragging down potential GDP growth (Figure 2.1, Panel B). Boosting firm growth and innovation is crucial to raise Greece's wages, employment and living standards (OECD, 2023[1]; 2020[2]).

### Figure 2.1. Productivity is low and performance gaps widened over time



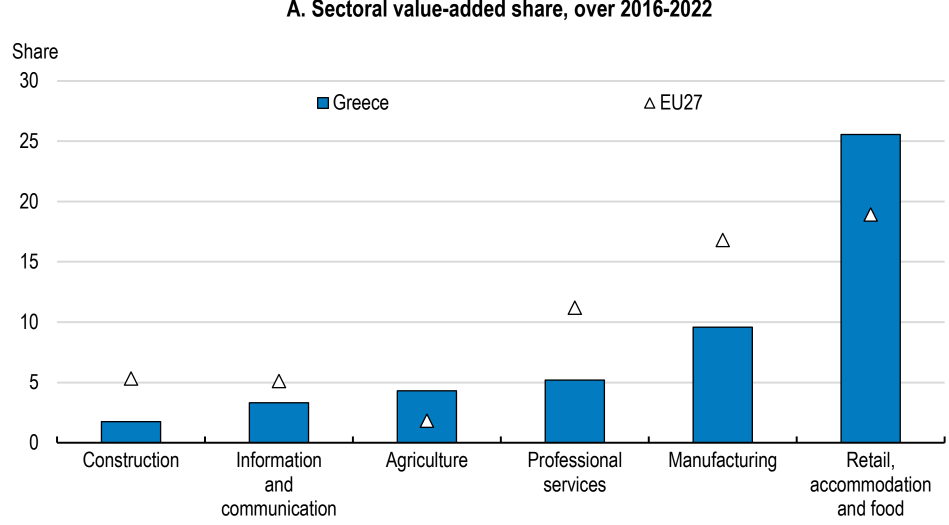

Note: GDP per hour worked in USD, constant prices and PPPs.
Source: OECD (2024), Productivity database; OECD (2024), OECD Economic Outlook: Statistics and Projections (database).
StatLink https://stat.link/4m12qu

These performance gaps can be partially explained by Greece's industrial specialisation. Sectors with typically low value-added per worker, such as agriculture and tourism, make up a larger part of its economy compared to other EU countries; conversely, higher value-added sectors such as manufacturing and information and communication, are comparatively small (Figure 2.2, Panel A) and the growth of the digital economy has been comparatively low (OECD, 2024[3]). However, Greece's performance gaps are significant across all sectors (Panel B), suggesting a widespread failure to invest and adopt new technologies, including in those sectors with greater potential for high performance (OECD, 2023[1]; Greek National Productivity Board, 2023[4]). The productivity gap of Greek businesses relative to other OECD

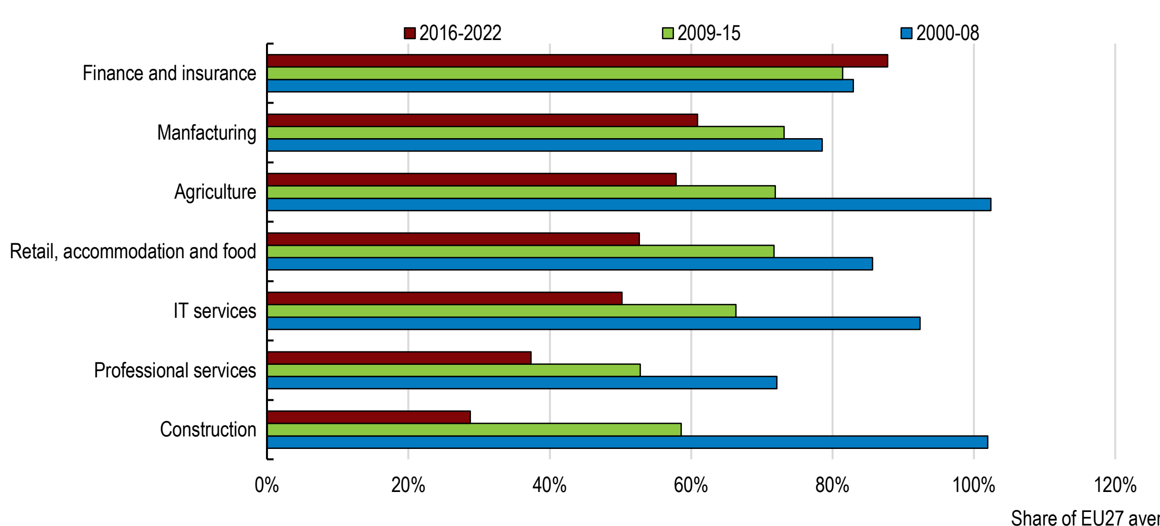
economies is also particularly large for micro and small firms, and unleashing their potential will play a key role for closing productivity gaps as 47% of employment was concentrated in micro firms in 2022 and SMEs accounted for 83% of total employment (see below and (Greek National Productivity Board, 2023[4]; Hellenic Republic, 2022[5]).

## Figure 2.2. Greece's sectoral specialisation explains only part of its low productivity

A. Sectoral value-added share, over 2016-2022




B. Sectoral labour productivity gaps in terms of value added per person employed to EU27 average




Note: Panel B: Annual labour productivity measured as value added, in Euro at current prices, per employed person, averaged over respective period.
Source: OECD calculations based on Eurostat (2024).

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These widespread productivity gaps suggest a need for better policies to foster productivity growth. This chapter focuses on three policy levers to support a more dynamic economy that encourages and enables more firms to flourish through innovation or adapting digital technologies:

- Reducing further regulatory barriers in services, improving the quality of regulations, and streamlining spatial planning would make the business environment more conducive to competition, firm growth and innovation.

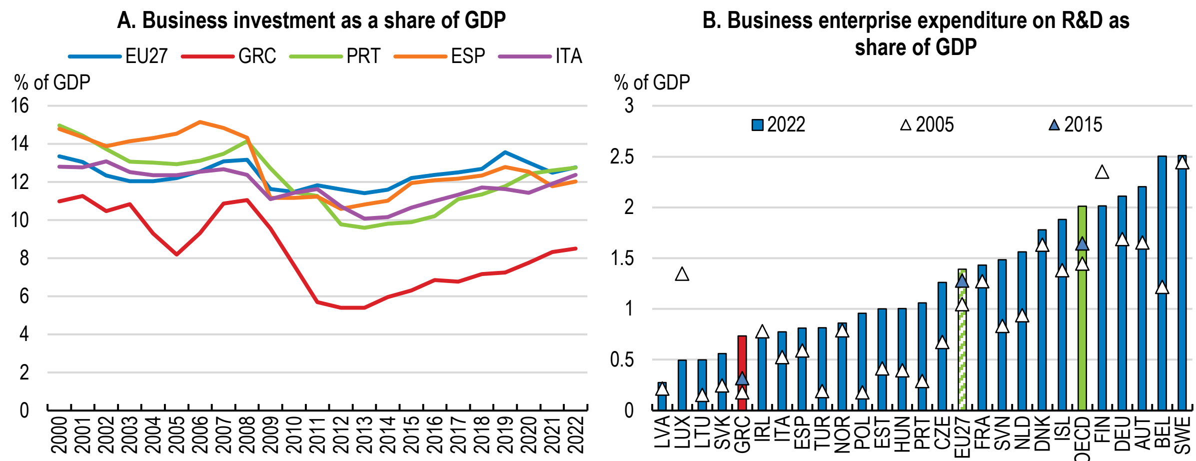
- Improving the take-up and quality of adult training, including for managerial and digital skills and among the numerous small firms, would support adult skills, reduce skills shortages and ease the diffusion of innovation.
- Easing the restructuration of non-performing debt, reducing the length of bankruptcy procedures, and carefully evaluating existing investment support schemes to target support on firms with the greatest innovative potential would improve access to finance for many firms.

The next section describes key features of Greece's business structure and innovation and stresses the need for reforms in terms of business regulation, skills and access to finance. Section 2.3 reviews policy developments to improve Greece's regulatory framework and policies to further remove obstacles to investment and competition. Section 2.4 discusses the observed severe skill shortages and their implications for the lifelong learning system. Section 2.5 explores the link between the access to finance of Greek firms and their propensity to innovate and grow, showing that there is room to improve the current mix of public support for businesses and foreign direct investment promotion policies.

## A bird's eye view of Greek firms' capacity to innovate and grow

Greece's persistent productivity gap has gone hand-in-hand with weak investment. Business investment collapsed with the economic crisis in 2007. While investment as a share of GDP started to recover in recent years, the investment gap with other EU countries is still large (Figure 2.3, Panel A). Likewise, business spending on research and development as a share of GDP has been rising but remained well below the EU average in 2022 (Figure 2.3, Panel B).

### Figure 2.3. Business investment, including in R&D, is improving but remains low




Panel A. Data refer to business sector excluding real estate (i.e. all activities minus real estate activities (L), public administration and defence, compulsory social security (O), education (P) and human health and social work activities (Q)).
Source: Panel A: Eurostat (2024) National Accounts database ; Panel B: OECD (2024), Business enterprise R-D expenditure.
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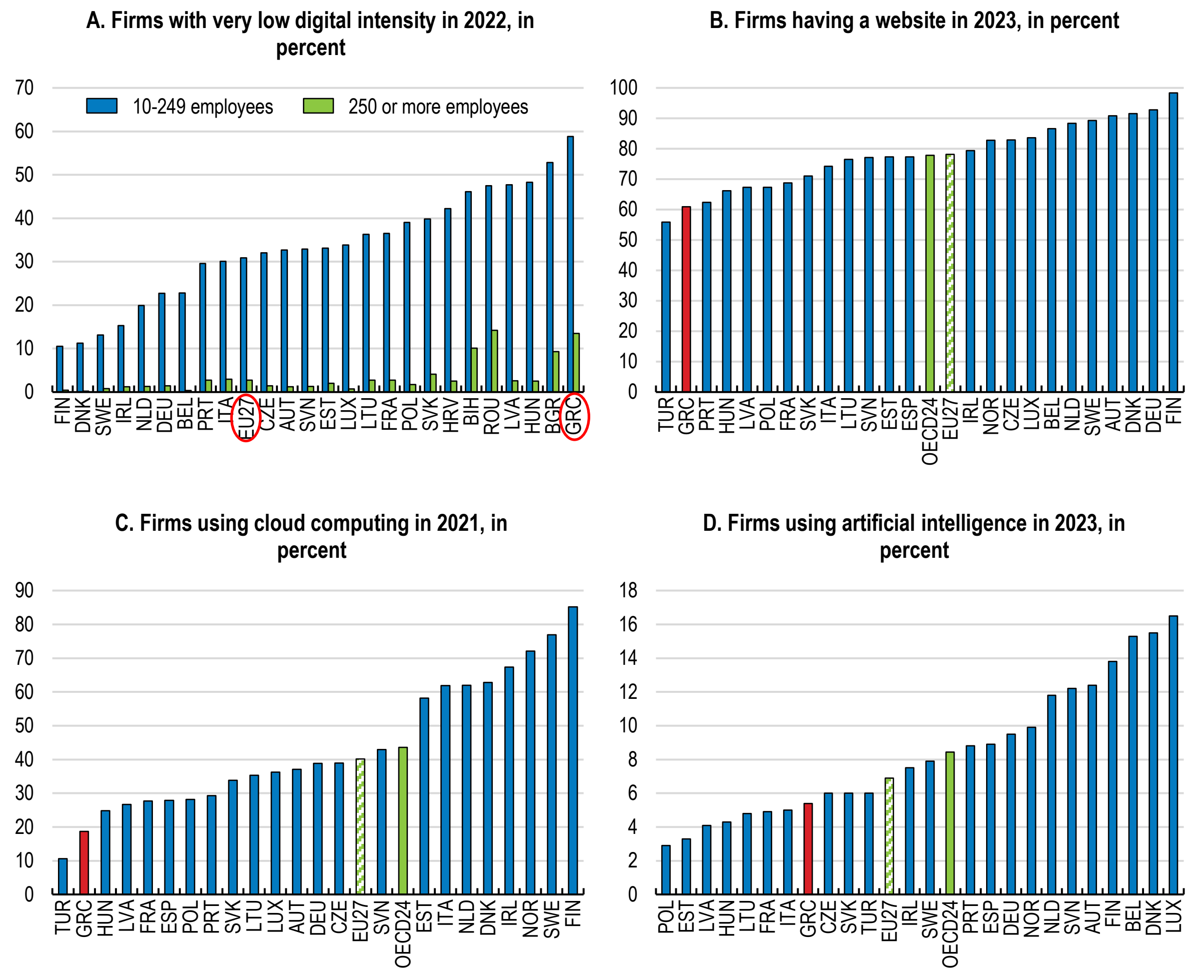
Large investment gaps are accompanied by slow diffusion and innovation in digital technologies, especially among smaller firms. More than half of SMEs (not including firms with less than 10 employees) have very low digital intensity, the largest share among EU countries (Figure 2.4, Panel A). Large firms in Greece perform significantly better at using digital technologies but the share of lagging firms with at least 250 employees and very low digital intensity, at 13%, is still the second largest among EU countries. Lagging adoption and innovation in digital technologies is reflected for example in fewer firms having a website, using cloud computing, or using artificial intelligence (Figure 2.4, Panels B to D).

## Figure 2.4. Businesses are lagging in adoption and innovation with digital technologies




Note: Panel A: Enterprises with a very low digital intensity index (Version 4) for all activities (except agriculture, forestry and fishing, and mining and quarrying), without financial sector. The digital intensity index is a survey-based measure on the use of different technologies by firms, covering for example the use of e-commerce, remote meetings, industrial robots, or ICT specialists. Panel B and D: Firms in manufacturing, electricity, gas, steam and air conditioning; water supply, sewerage, waste management and remediation activities; panel C: Firms with 10 persons employed or more.
Source: Eurostat (2024).

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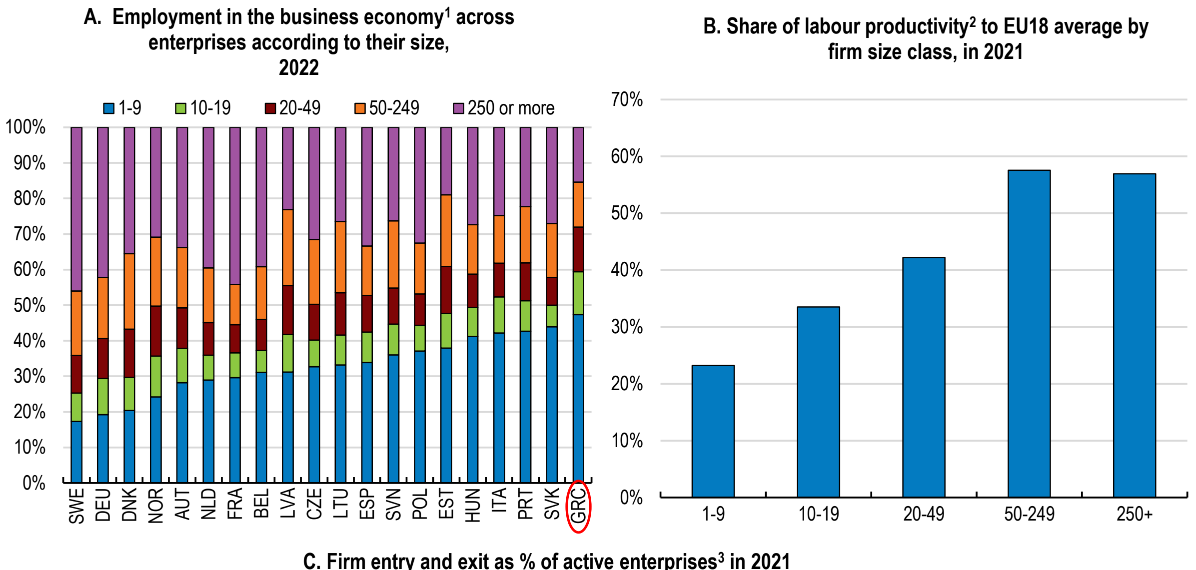
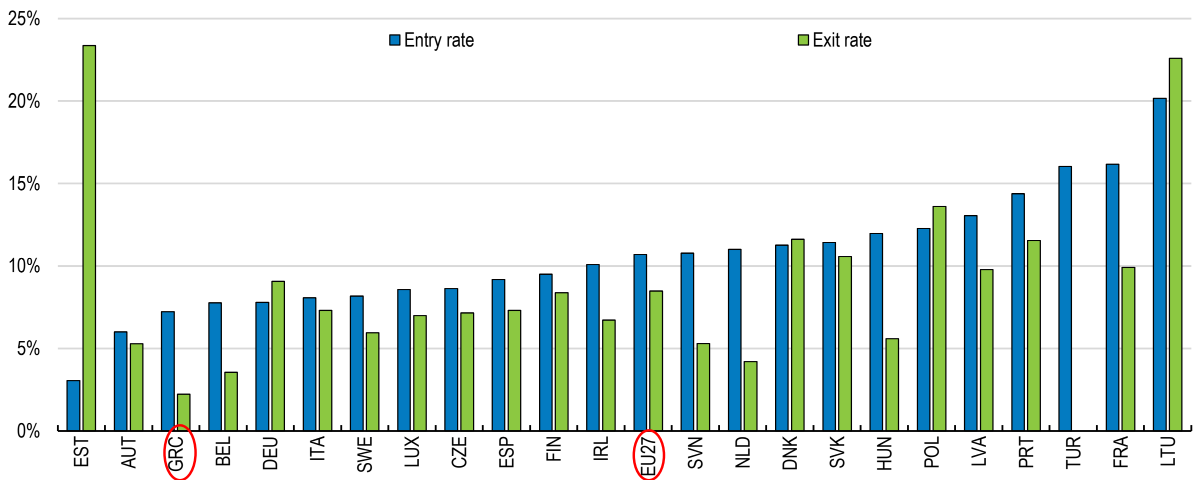
Greece has a disproportionate number of small firms, and their capacity to adopt technologies, innovate and grow appears limited. Almost half of Greece's workforce is employed by firms with less than 10 employees, the largest share among EU economies (Figure 2.5, Panel A). The strong tourism sector may be one factor behind this, but the weight of small firms does not result from Greece's focus on tourism alone. Small firms employ a larger share of workers compared to most OECD countries in several sectors, including in accommodation and food but also in construction and wholesale and retail (OECD, 2023[6]). Low levels of labour productivity are mainly a reflection of this large weight of small firms, as performance gaps – compared to EU peers of the same size class – are particularly pronounced among smaller firms (Panel B). The differential of labour productivity between micro and small firms and large companies is substantially larger in Greece than in the EU average country, Italy, Portugal or Spain, in the manufacturing and non-manufacturing sectors (Eurostat, 2024[7]). Meanwhile, business dynamism is weak, with comparatively few firms entering and exiting the market (Panel C).

## Figure 2.5. Small, low productivity firms dominate the economy while business dynamism is weak




1. Industry, construction and market services (except public administration and defence; compulsory social security; activities of membership organisations).Categories are in number of employed persons.
2. Labour productivity in national currency for business economy except financial and insurance activities; EU18 includes all euro area countries in 2021 except Cyprus.
3. Firms in industry, construction and market services (except activities of membership organisations).
Source: OECD Structural and Demographic Business Statistics (database); Eurostat; and OECD (2021).

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Neither the dominance of small firms nor the sectoral composition of Greece's economy necessarily stand in the way of stronger growth and economic catch-up, at least when considered in isolation. However, it is the combination of many small firms with large and persistent performance gaps, exacerbated by weak business dynamism, that creates a low-growth environment. Many firms stay small and stagnate at low productivity levels because they lack the means or opportunities to invest and adopt new technologies. Factors that stifle the growth of small firms and the spread of digital technologies across sectors, therefore, reflect broader weaknesses in the business environment that also weigh on larger firms, as well as firms innovating at the technology frontier. While the business environment has improved significantly in recent years, challenges remain. Remaining obstacles to innovation and firm growth notably include weak competition, high regulatory burdens, difficulties in obtaining external financing, and labour and skill shortages.

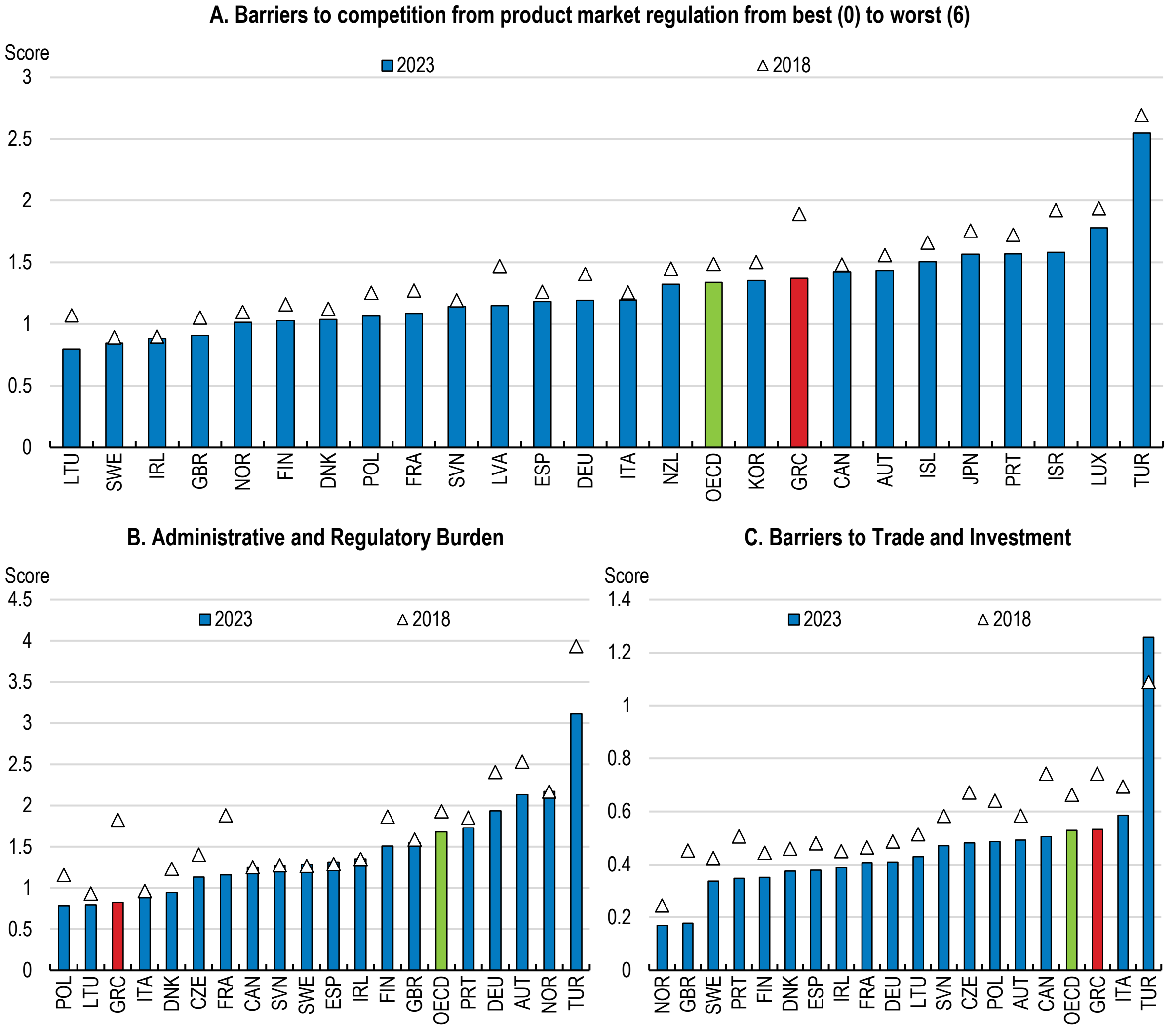
Greece has taken measures to boost firm growth among SMEs, including through tax incentives for mergers and the automatic preservation of previous business licenses in such cases (Ministry of Development, 2024[8]). Such mergers may help firms exploit economies of scale, for example by sharing technologies (EC, 2023[9]). However, the take-up of these provisions has been low and more could be done to promote stronger growth. Policies discussed below aim to boost performance and achieve broad-based gains in living standards by unleashing the innovative potential of Greece's economy among both smaller and larger firms, including those that are already active in innovation.

## Improving regulations to better support growth and innovation

### *Recent reforms have improved the regulatory framework*

Greece's regulatory framework has become more competition-friendly. Greece has shown the largest improvement in the product market regulation index among OECD countries since 2018 and now scores close to the OECD average (Figure 2.6, Panel A). The extensive reforms underlying this improvement are described in Box 2.1. Regulations now appear to promote competition better or about as well as in most OECD countries in many areas. The regulatory framework makes it easy to start a business and puts in place formal requirements that promote good legislative quality (Panel B). It is broadly supportive of foreign firms investing and conducting business in Greece by imposing relatively few restrictions on foreign firms or other trade barriers (Panel C). Greece's framework also sets conditions for the effective management of state-owned enterprises and creates a level playing field with private businesses, and the design of public procurement procedures and the extent of retail price controls are close to the OECD average. Progress in public sector digitalisation, discussed in Chapter 1, additionally contributes to simplifying and making public services more accessible.

## Figure 2.6. Reforms since 2019 have made the regulatory framework more competition-friendly




Note: Panel A: The OECD average includes all OECD countries, apart from Australia, Belgium, Colombia, Hungary, Mexico, Netherlands, Slovak Republic, and USA for which data collection is still ongoing.
Source: OECD 2024 PMR database (July 2024).

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These improvements notwithstanding, perceived regulatory burdens in Greece remain high, according to surveys conducted by the European Investment Bank, World Bank, and World Economic Forum (Figure 2.7, Panel A to C). For example, the 42% share of firms indicating regulatory burdens as a major investment obstacle in 2023 was twice as high as the EU average (Figure 2.7, Panel A). This may partly reflect the lag in the time it takes for people's perceptions to fully reflect recent reforms. Meanwhile, there remains scope to improve regulations further. This includes improving regulatory quality, notably by better using impact assessments and adapting regulations to new technologies, easing regulatory burdens on professional services, and improving spatial planning.

### Box 2.1. Recent product market reforms made Greece's economy more competition-friendly

**Communication and simplification of administrative and regulatory burden**

- A 2019 law introduced the requirement to use plain language in the drafting of laws and regulations, and implementation guidelines were published in 2020.
- The same 2019 law introduced the requirement to publish online a list of laws and regulations that are to be prepared, modified or repealed in the following six months.
- Another 2019 law introduced a risk-proportionality requirement for all new licences and permits. Procedures differentiate on the length and requirements of the licensing procedures according to the level of risk of the associated economic activity.
- Ongoing efforts to increase transparency and reduce administrative burdens through codification, for example for the tax system as well the licensing of manufacturing and logistics.

**Interaction with stakeholders**

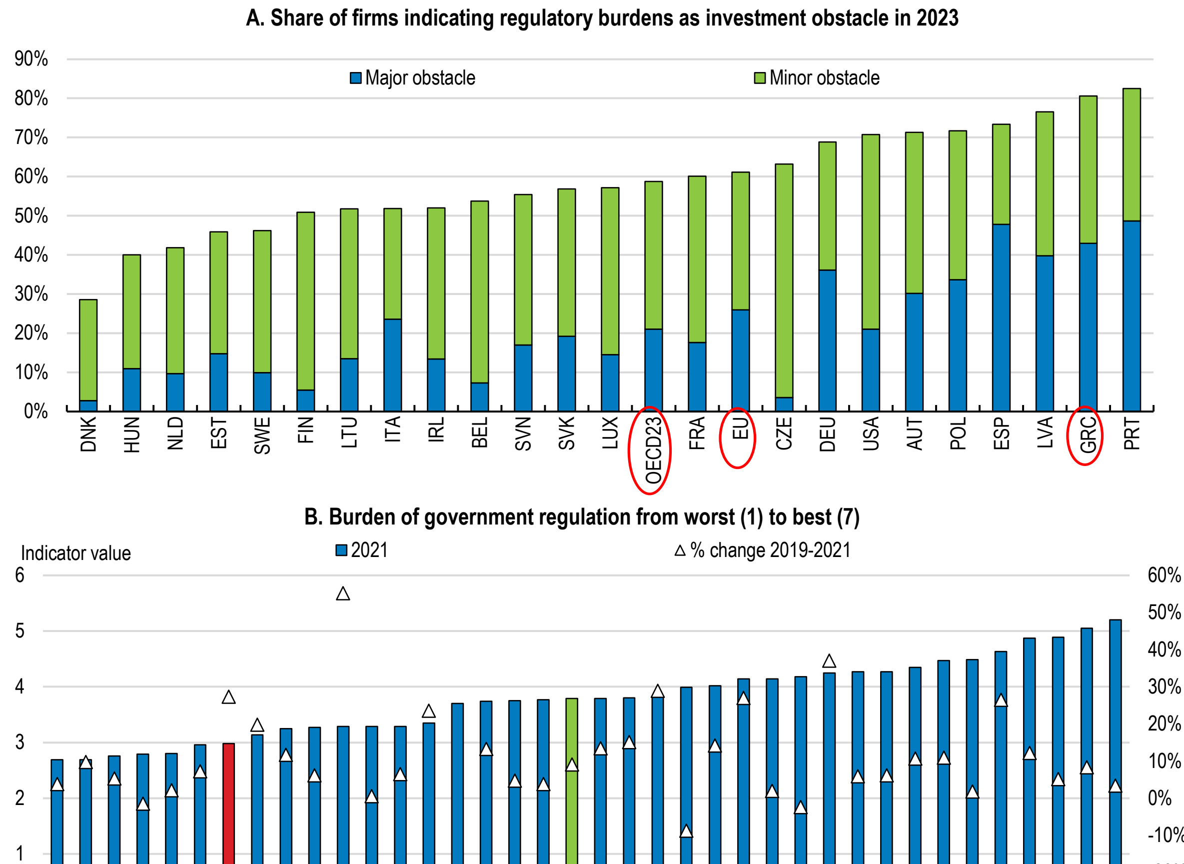
- A 2021 law regulates the interaction between public officials and interest groups to improve transparency. The law also requires certain interest groups to register in a dedicated public registry, with sanctions imposed in case of non-compliance.
- In 2019, Greece established a cooling-off period for public officials when they leave office to prevent employment that could lead to a conflict of interest for public officials.
- In 2020, the government published guidelines – the Regulatory Impact Analysis Manual - on how to conduct stakeholder engagement for the development of primary laws to ensure requirements are implemented in a consistent manner.

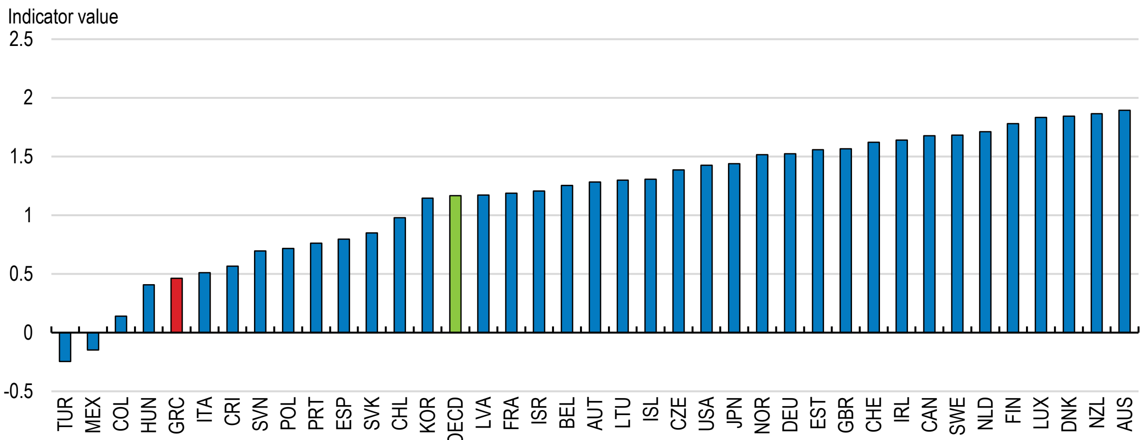
**Competition in network sectors**

- Competition in energy markets was strengthened in 2019 through the introduction of an independent retail price comparison tool for gas and energy retail offers, and in 2022 through allowing large and medium non-domestic electricity consumers to sell demand response to third parties; a natural gas exchange marketbecame operational in 2022.
- Competition for transport was strengthened in 2020, with an independent body supervising the level of charges levied by Greek airport operators. Competitive tendering for the allocation of exclusive rights for long-distance coach operators to serve certain routes was established in 2022.
- Since 2019, mobile operators have been allowed to share passive and active infrastructure, and the regulator has published guidelines and rules on how to do so.

Source: OECD PMR Database (July 2024); (Hellenic Republic, 2023[10]).

## Figure 2.7. Perceived regulatory burdens remain comparatively high






Source: Panel A: EIB Investment Survey database (2024); Panel B: World Economic Forum (2022); Panel C: World Bank Worldwide Governance Indicators Database (2022).

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### *Enhancing regulatory quality further*

*Strengthening regulatory impact assessments*

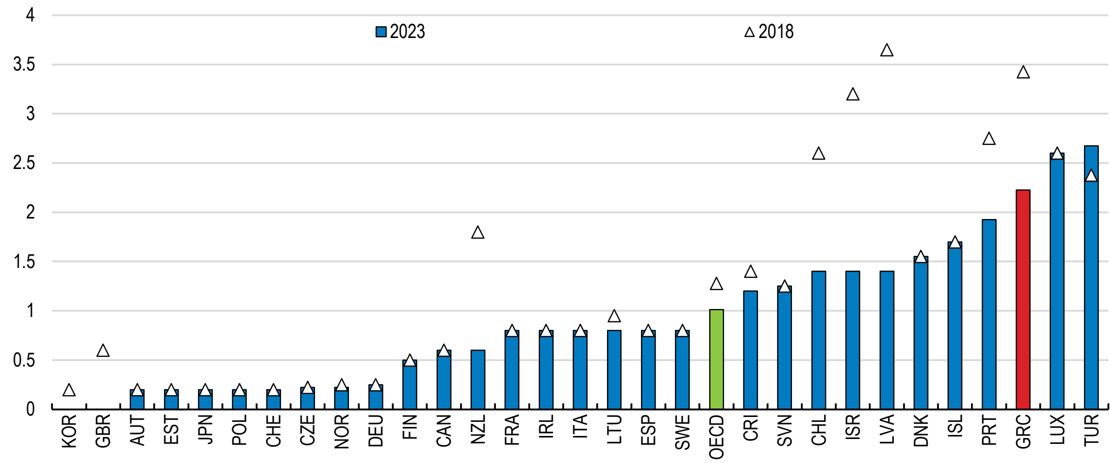
Reports highlight remaining difficulties with the drafting and implementation of laws and regulations as well as a formalistic legislative culture which contribute to an overly complex and sometimes contradictory legal framework (EC, 2023[9]; EBRD, 2021[11]; KEFIM, 2023[12]; Petrakis, 2024[13]). For example, recent reforms to improve public consultation and legislative quality may be less effective than they could be because many legislative changes are brought in as emergency regulations or amendments to existing laws, which are less subject to quality control (EC, 2023[14]). In 2020 to 2021 more than three quarter of laws were adopted in 30 or less days, compared to less than 20% of laws in the EU on average (EC, 2023[9]), while 82% of amendments in 2023 were unrelated to the law's main subject (KEFIM, 2023[12]). Allowing sufficient time for public consultation and applying existing quality control measures to draft legislation more fully will be important to ensure that new laws do not add further complexity but instead help to simplify legislation (EC, 2023[14]).

Extending the scope and improving the quality of regulatory impact assessments (RIAs) can prevent new and reduce remaining regulatory burdens. RIAs help inform policymakers on how to design regulations that achieve policy goals with minimal collateral costs (OECD, 2012[15]). They inform whether less costly and more effective alternatives – ranging from the option to do nothing to steering or nudging behaviour with information campaigns or incentives – are available (OECD, 2020[16]). RIAs can also reduce burdens stemming from enforcement, for example by promoting proportionate and risk-based approaches on inspections (OECD, 2018[17]).

Regulatory impact assessments could be made more comprehensive. Greece already requires RIAs for all new primary laws and some subordinate regulations – i.e. regulations that provide detail and enforcement arrangements for the primary laws. However, Greece requires less comprehensive assessments than most other OECD countries (Figure 2.8). For example, assessments are not required to consider alternatives to regulations, such as a `do-nothing' option, or the impact on business innovation. Moreover, assessments of the potential competition effects are required only for primary laws, but not for subordinate regulations, which include more detailed prescriptions than primary laws and usually restrict competition just as much as primary laws.

**Figure 2.8. More comprehensive impact assessments could reduce regulatory burdens**

Regulatory impact assessment on competition from best (0) to worst (6)




Source: OECD 2024 PMR database (July 2024).

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Implementing systematic ex-post evaluations would help reduce the large burdens arising from existing regulations. (OECD, 2020[18]). The potential for reducing burdens from existing regulations is showcased by the 2017 *OECD Competition Assessment review,* which identified scope to improve 28% of the reviewed legislation, covering regulations pertinent for about one-tenth of Greece's economy (OECD, 2017[19]). The Ministry of Development has created a unit dedicated to identifying and reducing regulatory burdens, including through regular meetings and exchanges with business associations. Since 2016, efforts are ongoing notably to review investment licenses in logistics and food manufacturing (Ministry of Development, 2024[8]). A large legacy of existing regulations in combination with limited public-sector capacities suggest that formalising procedures to review existing regulations could focus resources on the most burdensome regulations and improve transparency. These procedures should define the involvement of stakeholders such as businesses, unions and the Hellenic Competition Commission. Denmark, for example, has achieved large reductions in regulatory burdens by establishing a Business Forum for Better Regulation (Box 2.2).

### Box 2.2. Denmark's Business Forum for Better Regulation

The Danish Business Regulation Forum was launched by the Danish Minister for Business and Growth in 2012. It aims to ensure the renewal of business regulation in close dialogue with the business community by identifying those areas that businesses perceive as the most burdensome and propose simplification measures. These could include changing rules, introducing new processes, or shortening processing times. Besides administrative burdens, the Forum's definition of burdens also includes compliance costs in a broader sense as well as adaptation costs ("one-off" costs related to adapting to new and changed regulation).

The 19 members of the Business Forum include industry and labour organisations, businesses, as well as academic experts with expertise in simplification. Members are invited by the Ministry for Business and Growth either in their personal capacity or as a representative of an organisation. The Business Forum meets three times a year to decide which proposals to send to the government. So far, the proposals covered thirteen themes, ranging from "The employment of foreign workers" to "Barriers for growth". In addition, interested parties can submit proposals for potential simplifications through the Business Forum's website. Information on meetings and the resulting initiatives is published online.

Proposals from the Business Forum are subject to a "follow or explain" principle. This means that the government is committed to either implement the proposed initiatives or to justify why initiatives are not implemented. Results on the implementation of all proposals are updated three times a year on www.enklereregler.dk.

Source: (OECD, 2019[20]).

Ensuring sufficient analytical capacities for key ministries and agencies will be crucial to provide informative assessments that can guide decision making. Producing informative RIAs requires specific skills and knowledge, for example about alternative instruments or how to assess and quantify opportunity or environmental costs (OECD, 2020[16]). Reports suggest a large potential to make assessments more informative in Greece (Petrakis, 2024[13]; EC, 2023[9]; Vlachopoulos, 2024[21]; Pissarides et al., 2023[22]). For example, in 2023 no regulatory impact report contained quantitative information on potential impacts (KEFIM, 2023[12]). In 2019 Greece introduced the Committee Evaluating the Quality of the Law-Preparation Process (ΕΑΠΝΔ-EAPND), comprising lawyers as well as economists, which is welcome to improve the quality of assessments (Petrakis, 2024[13]). Providing staff in line ministries with the skills and experience needed to draft informative RIAs may require additional training and enabling staff to specialise. Additional capacities could be leveraged by assuring that the Hellenic Competition Commission, which is invited to issue opinions on legislation, has sufficient resources to identify and review relevant legislation.

### Adapting regulations to artificial intelligence

Regulations will have to adapt to address challenges arising from innovative technologies. Digital technologies such as artificial intelligence (AI) have the potential to raise productivity growth and public sector effectiveness by automating tasks and developing data-driven decisions. At the same time, AI poses new challenges to competition as well as risks to businesses and consumers, for example on copyright or personal privacy (Nicoletti, Vitale and Abate, 2023[23]).

Greece is promoting AI innovation as an engine for growth. The government aims to create an enabling policy environment for AI, including through infrastructure investments and the establishment of AI research centres (Ministry of Digital Governance, 2024[24]). It has already attracted large investments from key players, such as Microsoft, Meta and Google. Additionally, the government also aims to be at the forefront of using AI for the digitalisation of public services, for example with its mAIgov chat bot for Gov.gr (Ministry of Digital Governance, 2023[25]). While the use of AI is still at an early stage, the government expects a wider use with large impacts across Greek society by 2030 (Tsekeris and Karkaletsis, 2024[26]).

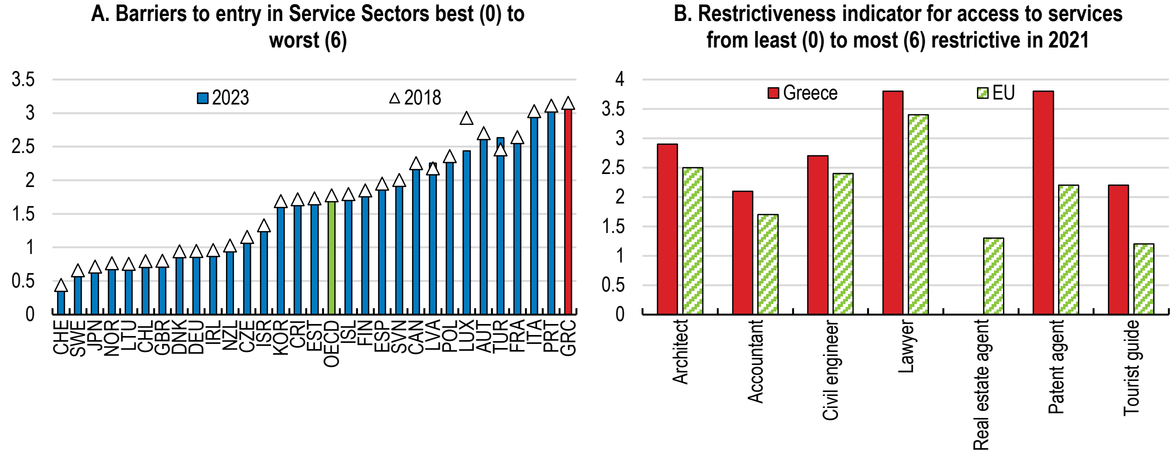
AI regulation is mostly defined at the EU level, which helps to avoid fragmentation, but some EU countries are using sandboxes to promote regulatory experimentation. Sandboxes create spaces where authorities engage firms to test innovative products or services that challenge existing legal frameworks. Firms benefit from temporary waivers from existing regulations, while regulators obtain technical and market data to assess regulations. To help firms and regulators develop expertise in AI, Greece could join countries such as Spain in creating an AI regulatory sandbox to test the future proposed EU AI Act (OECD, 2023[27]).

## *Lifting restrictions on professional services*

Professional services face tighter regulations compared to most other EU and OECD countries (Figure 2.9, Panel A and B). One example is legal professions, which provide important intermediate services for businesses. By preventing competition and innovation with new business models, such restrictions tend to make legal services more expensive, which can ultimately deter innovation, including for firms using legal services as inputs (van der Marel, Janez and Iootty, 2016[28]; Bambalaite, Nicoletti and von Rueden, 2020[29]; OECD, 2024[30]). For example, instead of setting their own price, lawyers and notaries in Greece are mostly paid through regulated fees (EC, 2021[31]). Lawyers or notaries in Greece are not allowed to jointly own a legal firm with non-lawyers, although non-lawyers may contribute complementary or management skills. Greece also restricts the number of notaries per prefecture, although it is unclear to what extent this constrains the supply of notarial services, as Greece has a high density of notaries compared to other European countries (CEPEJ, 2023[32]). In France, the partial opening of the notary openings has led to increased firm entry and to lower regulated tariffs (Box 2.3).

Meanwhile, Greece is easing licensing restrictions on several technical professions relevant for innovation, including electricians, technicians and machinery operators (Ministry of Development, 2024[8]). Under the current system, offering these services requires lengthy licensing procedures, including obtaining degrees and accumulating experience before being able to pass exams to obtain a license. Ongoing efforts aim at increasing access to these services by simplifying and accelerating licensing.

## Figure 2.9. Strict regulations of professional services weigh on the business environment




Source: OECD 2024 PMR database (July 2024); EU Restrictiveness indicator database (2021).

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### Box 2.3. France's reform to expand access to notarial services

Until 2015 in France, notaries could only access private practice by being appointed to an existing office. This mechanism had led to a stagnation in the number of notaries and a disconnect between the supply of notaries and the demand from individuals and companies. In addition, the profession was not able to absorb the flow of graduate notaries. This process led to a density of notaries that was inversely proportional to population density, reflecting a flagrant imbalance between supply and demand. Hence a new procedure for the creation of notary offices was introduced in 2015, which requires the Autorité de la Concurrence (the French competition watchdog) to submit to the government, every two years, a proposed map of areas where the creation of offices appears useful, accompanied by recommendations on the rate of establishment compatible with a gradual increase in the number of professionals in the areas in question. The reform has resulted in the establishment of nearly 2,300 new notaries since 2017, an increase of more than 30% in supply. The increase in supply allowed to reduce regulated tariffs by 2.5% in 2016. This has resulted in greater availability of notaries, a reduction in the time taken to process files and increased use of digital tools.

### *Fostering certainty about land use rights*

The spatial planning system remains a barrier to investment, though progress is ongoing. Uncertainty about planning rights creates risks and add costs for investors. Progress with completing the cadastre is helping to reduce this uncertainty. In May 2023 Greece had mapped 72% of property rights in the country, up from 63.5% in 2022, with mapping of nearly all of the remaining property rights being underway (EC, 2023[9]; EC, 2022[33]). Mapping of forests has been completed. Meanwhile, incomplete spatial plans and special spatial frameworks, for example for Natura 2000 protected areas, continue to stifle investments (EC, 2023[9]).

Clarifying and simplifying spatial planning processes would help protect the environment and create greater certainty about land use rights to facilitate investments. Swiftly completing and revising spatial plans would also support climate change adaptation, for example by incorporating climate hazards to prevent further population growth in risk-prone areas (Sutherland et al., 2024[34]). Greece's system of spatial planning is complex with Greece having among the largest number of spatial plans compared to other OECD countries (OECD, 2017[35]). Approving and implementing regional spatial frameworks and

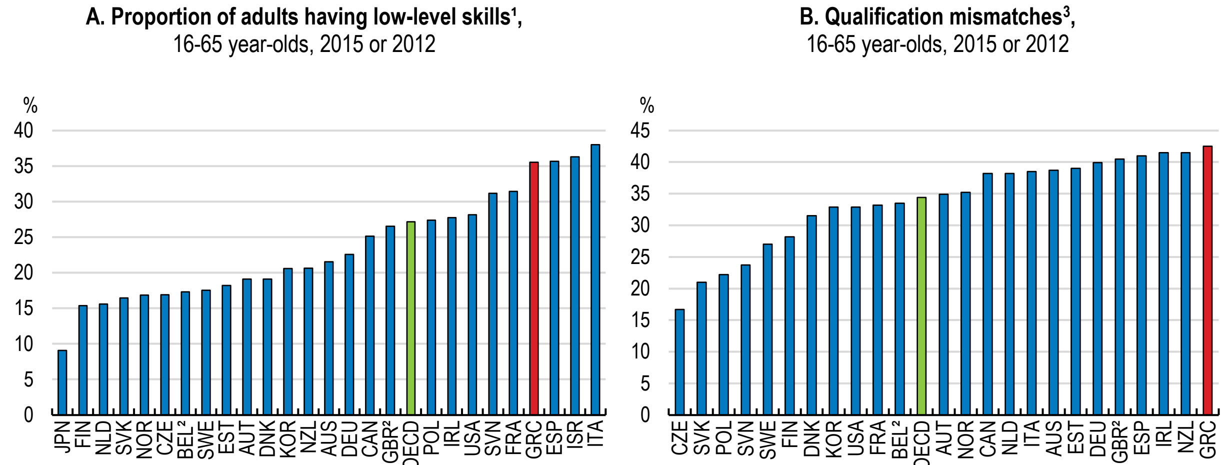
zoning plans is taking many years (OECD, 2020[36]; Dandoualki et al., 2023[37]). As described in the 2023 Economic Survey, delays reflect fragmented and sometimes contradicting responsibilities across sub-national authorities and the central government. Misalignments in the sequencing of updating plans add to delays and uncertainty about land use. For example, in the past, lower-level plans, such as regional zoning plans, were approved before higher-level ones, i.e. strategic spatial frameworks or the national spatial framework, were completed, while the latter should inform the former (OECD, 2020[36]).

## Making the most of adult skills

Greece's increasingly educated workforce constitutes an important asset for firms' potential to innovate and grow. Combined with structural reforms and contained wage costs, this has helped to increase exports and turn Greece's economy into an attractive market for foreign investors. A relatively high share of new graduates from tertiary education hold degrees in natural science, mathematics, ICT and engineering, notably among women (OECD, 2024[38]). Foreign language skills, in particular English, are generally well-ranked in international comparisons and are in high demand (EF, 2023[39]) (OECD, 2023[40]).

Despite this progress, the share of adults with low skills is higher than in neighbouring countries and the OECD average (Figure 2.10). In addition, the effective use of skills is lagging, with a particularly high degree of skill mismatches in the labour market according to both OECD and Cedefop indicators (OECD, 2016[41]; Cedefop, 2024[42]). A vital condition for improving business innovation and internationalisation is the existence of a sufficiently large pool of workers with a high level of education and skills. Greek firms tend to rely on relatively low skills and few knowledge-intensive services compared to other OECD countries (OECD, 2016[43]).

### Figure 2.10. Adult skills are relatively low and skill mismatches are high




1. Percentage of adults scoring low (at or below level 1) in both literacy and numeracy in the Survey of Adult Skills (PIAAC).
2. Data for Belgium refer only to Flanders, and data for the United Kingdom refer only to England.
3. Percentage of employed workers that have a qualification that does not match their job's requirements.
Source: OECD (2016), Skills Matter: Further Results from the Survey of Adult Skills, OECD Skills Studies, OECD Publishing, Paris; OECD Skills for Jobs Database.

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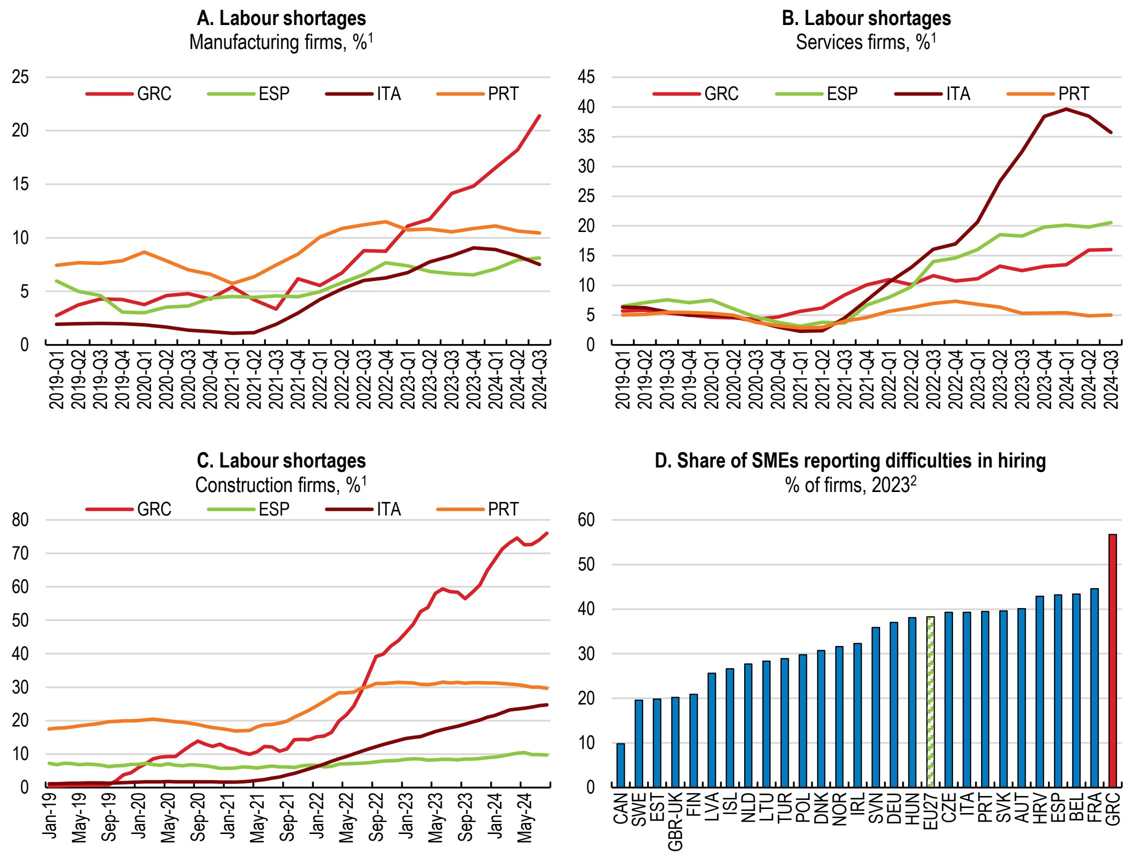
Business surveys indicate labour shortages – across small, medium and larger firms – as a key factor limiting production (Figure 2.11) (Eurobarometer, 2023[44]). Indeed, the unemployment rate is close to its 15-year low, despite remaining among the highest in the OECD. In the short term, the training system will face strong needs to facilitate the reallocation of workers towards sectors and firms that have high potential, as well as activating the long-term unemployed, as more than 6.2% of the active population have been out

of work for a year or more (Eurostat, 2024[45]). Measures to promote longer working life and to ease women labour force integration could also help reduce shortages, especially as many of them are relatively high skilled (Chapter 1). In the longer term, it will be important to strengthen the skills needed for the adoption of technological innovations (OECD, 2024[46]; Bulman, 2020[47]) and further improve the initial education system (Chapter 1). Indeed, automation is set to affect a significant share of jobs, while population ageing is set to lower labour supply.

The high rate at which skills become obsolete makes it harder for seniors to find work, whereas demographic ageing requires better employability and working conditions for older workers. According to the European Commission projections, if nothing changes, the working-age population in Greece will shrink by 11% over the next ten years and the share of the 55-64 year olds will reach 28% (EC, 2023[48]). Seniors will have to work until later in life (Chapter 1), which means they need to fight against stereotypes and discrimination. At the same time, digitalisation may accelerate skill depreciation for many workers, increasing inequality. Around 59% of jobs in Greece could become redundant or risk changing substantially due to new technologies (Lassébie and Quintini, 2022[49]; Nedelkoska and Quintini, 2018[50]). Automation and digitalisation are set to further reduce demand for manual and repetitive tasks, and increase demand for interpersonal and problem-solving skills to ensure machines' and workers' complementarity (OECD, 2023[51]).

## Figure 2.11. Labour shortages are pervasive




Note: 1. Percentage of firms pointing to labour shortages as a factor limiting production, yearly moving average. 2. Share of SMEs reporting it was very difficult to find and hire staff with the right skills over the past 24 months.
Source: European Commission (2024), Business and consumer survey database; EC (2023), Flash Eurobarometer FL537: SMEs and skills shortages, European Commission.

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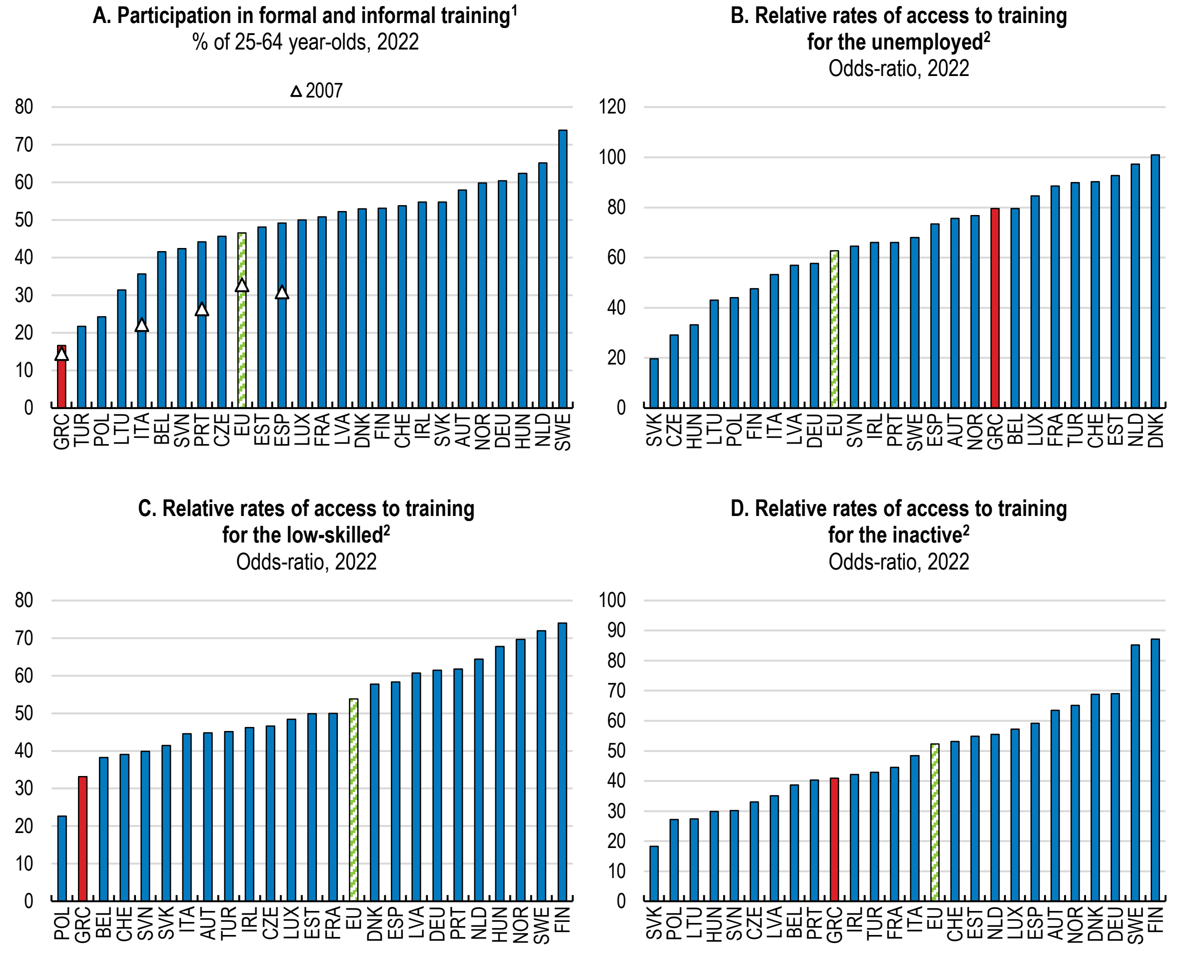
### *Strengthening active labour market policies*

Further efforts to enhance lifelong learning will be essential to improve the use of skills and reduce mismatches between workers' skills and labour-market needs. The participation in continuous training is low in some areas (Figure 2.12, (OECD, 2021[52])), despite the estimated high returns to job related training (Fialho, Quintini and Vandeweyer, 2019[53]). As in many OECD countries, low-skilled, unemployed and inactive workers struggle to access training, notably formal training courses.

## Figure 2.12. Training could be improved, in particular for the low-skilled and the inactive




1. Adults aged between 25 and 64 enrolled in education or training over the last twelve months.
2. Participation rate of adults who are unemployed (with education up to the first cycle of secondary education or inactive in Panels C and D) compared to the participation rate of all adults.
Source: Eurostat (2024), "Adult training: Participation rate in education and training", Eurostat database.

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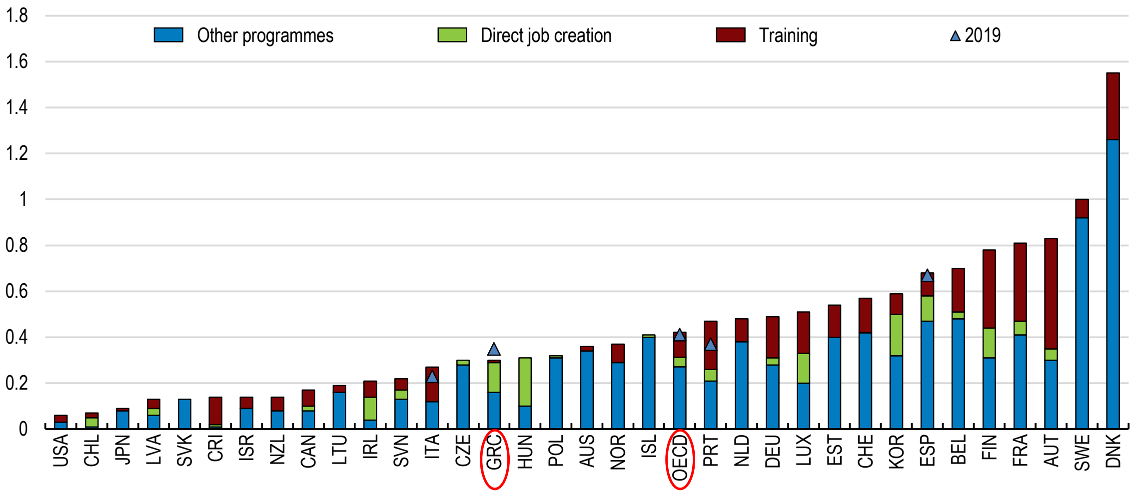
Active labour market policies in Greece include public works programmes, wage subsidy programmes, programmes promoting entrepreneurship, and training and work experience programmes for youths and longer-term unemployed. The public employment service (DYPA) coordinates access to these, alongside its core role of matching jobseekers with job openings. The government has streamlined its governance in 2022 and is aiming at improving the service's performance, by investing in DYPA's staffing and digitalisation, including matching tools, through the Recovery and Resilience Funds and developing a broad strategy for ALMP provision (Box 2.4) (OECD, 2024[46]). In mid-2022, new legislation also introduced general guidelines of a new mutual obligations framework, requiring the registered unemployed to work

with counsellors to create individual career action plans and providing additional incentives for the long-term unemployed to search for work (Box 2.4).

Despite still high levels of unemployment in international comparison and effective training and wage-subsidy programmes, spending on active labour market policies (ALMPs) has been low and volatile in recent years (Figure 2.13) (OECD, 2024[46]). A recent OECD evaluation shows that training and wage subsidy programmes have been successful in terms of employment and earnings (OECD, 2024[46]). However, the low levels of spending, coupled with high demand, have translated into limited support for jobseekers and, in the past, few people have participated in training and wage subsidies programmes. Counsellors face high caseloads, making it hard to meet jobseekers' needs and provide tailored support. In a wellcome move, Greece is currently reforming its Public Employment Services and ALMPs (Box 2.4) and the 2022 National Skills Strategy and the NRRP Greece 2.0 plan to increase such activities. The 2023 National Reform Programme also aims at training 15,000 unemployed aged 25-45 through upskilling and reskilling activities, as well as a short-term employment subsidy, and 22,500 unemployed based on local labour market characteristics (Hellenic Republic, 2023[54]). Additional measures are planned to develop the counselling skills of the current counsellors.

## Figure 2.13. Greece spends relatively little on training and other active labour market policies

% of GDP, 2021




Note: OECD is an unweighted average of the 34 countries shown. Due to missing data for Greece, Category 1.2 (benefit administration), is excluded. Category 4.2 relates to temporary employment maintenance incentives which were dramatically affected by exception measures to address the challenges of COVID-19 and is excluded from this comparison.
Source: OECD (2024), Impact Evaluation of Training and Wage Subsidies for the Unemployed in Greece, Connecting People with Jobs, OECD Publishing, Paris; and OECD (2024), OECD Database on Public expenditure and participant stocks on LMP.
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The expansion of training programmes for the unemployed and those outside the labour force should go hand-in-hand with an increased focus on the quality of those programmes and their evaluation, as specified in the 2022 "Jobs again" reform and the 2022 National Skill Strategy (Box 2.4). Greece's many small private training providers that are certified by the Ministry of Education could expand the availability of adult and skill training, but their accountability needs to improve. In addition, they require support to boost their capacity and the quality and relevance of their courses, which remains patchy. The rich data collected by DYPA and the Labour Ministry would allow a more systematic evaluation and certification culture (OECD, 2024[46]). This would help Greece to follow the example of other OECD countries such as Denmark, France and the Netherlands, by publishing quality grades of training providers and courses. In a welcome move, the National Skills Strategy plans to introduce outcome-based payments for training providers (Ministry of Labour and Social insurance, 2023[55]), which could strengthen the incentives for better-quality training programmes.

### Box 2.4. The ongoing transformation of the Public Employment Service (DYPA)

An extensive reform called “Jobs Again” (Law 4921/2022) was launched in April 2022 in the design and implementation of ALMPs, benefit schemes, as well as the Greek Public Employment Service, (DYPA). Greece reviewed the organisation and governance of its public employment service (OECD, 2024[46]), shifting administrative staff towards counselling functions and intensifying collaboration with employers. With support from the RRF, Greece has also embarked on the digital transformation of employment and social security services. In addition, the reform foresaw a shift of the financing of continuing vocational education and training (CVET) programmes from training vouchers to Individual Learning Accounts (ALDs). DYPA currently manages the pilot phase.

In mid-2022, Greece also developed a new mutual obligation framework, currently under review, 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.

The 2020 reform of the national lifelong learning system aims at improving the quality and labour market relevance of training programmes. The reform sets the basis for delivering training programmes, including on digital and green skills. In addition, Law 4957/2022 on higher education aims at strengthening universities’ ties with society among others through the establishment of Lifelong Learning Centres for mature students. Law 4921/2022 includes criteria that CVET providers must satisfy to provide EU co-funded training and defines a process to evaluate CVET providers, based on relevant quality indicators (e.g. the percentage of trainees who find a job or who are certified after completing a CVET programme). However, the process to evaluate CVET programmes and providers is currently being developed.

The 2022 National Skills Strategy and the NRRP Greece 2.0 have the objective to increase training activities. In particular, DYPA targets to upgrade the digital and green skills of 500,000 workers between 2022 and 2025 (Hellenic Republic, 2021[56]) (Ministry of Labour and Social insurance, 2022[57]) (Ministry of Labour and Social insurance, 2023[55]). The 2023 National Skills Strategy has further specified such programs, targeting in particular digital and green skills, and SMEs in peripheral Regions (DYPA, 2023).

Source: OECD (2024[46]), Impact Evaluation of Training and Wage Subsidies for the Unemployed in Greece, Connecting People with Jobs, OECD Publishing, Paris. EC (2023), Greece 2023 Country Report, European Commission; DYPA (2023), Strategy for labour force Upskilling and connection to the labour market – Update 2023.

Expanding the counselling capacity of the Public Employment Service (DYPA) and ensuring stable financing of training programmes will also be crucial. At an estimated 1,847 jobseekers per counsellor, the caseload of Greek counsellors remained well above other OECD countries in 2022 (OECD, 2024[46]; EC, 2023[9]). This may notably prevent counsellors from reaching out and supporting more vulnerable groups with weak attachment to the labour market, as this requires intensive face-to-face counselling and post-placement support (OECD, 2021[58]). The scaling-up of training programmes and the new individualaction plans, which include following up and enforcing sanctions in a proactive and proportionate way, will also require substantially boosting counsellors’ capacity (OECD, 2023[1]). European funds will allow the recruitment of 600 additional employment counsellors on a temporary basis over 2021-27 (EC, 2023[59]). These efforts are being complemented by ongoing improvements with respect to profiling, process simplification and automation, which are expected to make the work of counsellors more effective. Greece can build on this progress by rebalancing the high share of support for direct job creation (public works) towards training and counselling for unemployed workers (Figure 2.13). Indeed, international evidence

tends to show that support schemes for direct job creation are generally not effective in bringing participants back to the open labour market (OECD, 2024[46]; Card, Kluve and Weber, 2017[60]).

### *Increasing participation in lifelong learning*

Greece has scope to increase participation in training, notably for workers in SMEs and self-employed workers (Figure 2.14). Workplace training for SMEs is particularly costly given fewer staff and resources, a low retention rate and the high risk of poaching by other firms. The direct cost of training an employee may also be higher if the firm cannot benefit from economies of scale, or if the initial cost of searching suitable opportunities can only be split over a limited number of training participants (OECD, 2019[61]; 2021[62]). Providing additional financial support and technical assistance to SMEs would increase work-based learning opportunities. Financial support for the development of programmes and cost reimbursement have proved to be the most effective initiatives in improving SMEs work-based learning. Pooling of resources can also help address various obstacles that small firms face with respect to offering training, and policy makers can support firm networks by allowing these entities to apply for support alongside individual firms (see below and (OECD, 2021[62])).

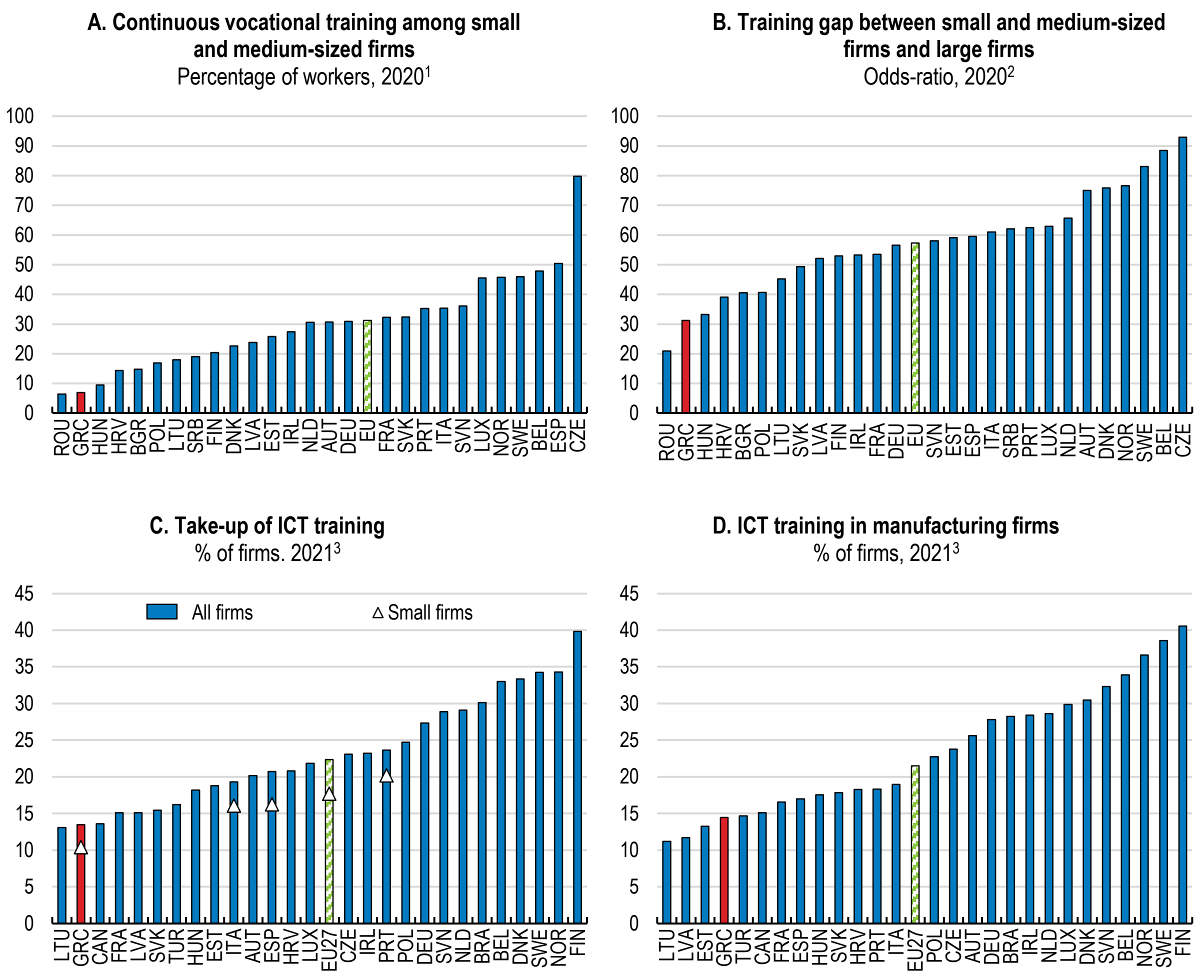
A training levy has been in existence since 1994. The Public Employment Service (DYPA) is currently responsible for operating and managing the scheme before social partners take over the management as foreseen in the 2022 "Jobs again" reform. Since 2015, employers have had to contribute 0.24% of salary costs to a training fund if they do not provide training. The levy ("LAEK") is collected together with contributions for covering the costs of initial vocational education on one hand, and training of the unemployed, on the other hand. In addition to the 0.24% levy, employers contribute 0.12% to a special joint account for unemployment programmes and employees contribute 0.10% to the same account. Companies with 50 of more employees can seek training cost reimbursement via a training scheme, while small enterprises (up to 49 employees) can benefit from training subsidies. In addition, training vouchers are supporting digital and green skills for 500,000 workers over 2021-25.

There is scope to make wider use of direct financial incentives. According to the 2022 Eurostat Adult Education Survey, costs and time constraints related to training and work schedule as well as family arrangements, are the most salient constraints to participate in adult learning in Greece. Cost factors appear relatively stronger than in other European Union countries, notably for the 25-34 year olds, women, and those with vocational education levels (Figure 2.15). More measures to support individuals' ability to pay, such as targeted training vouchers and subsidised training places, complemented with effective quality assurance, information and guidance, can be effective (OECD, 2019[63]) and appear relatively limited in Greece (Cedefop, 2020[64]). The government could top-up the existing training fund to enable some adults to undertake longer, more rewarding training programmes and better target thecurrent programmeswhose fuding is not differentiated according to workers, training types or the performance of training programmes. This could be done by providing additional financing for the training of workers in SMEs (OECD, 2021[62]) or to upgrade some specific workers' training accounts, notably for the youth, low-skilled or long-term unemployed workers, that they would repay through future income (Card, Kluve and Weber, 2017[60]). In addition, Greece could follow other countries in providing statutory education and training leave, which can also help training to be seen as standard practice (Bulman, 2020[47]).

The ongoing establishment of individual learning accounts could also increase adult participation in learning. The implementation of individual learning accounts was foreseen in fthe "Jobs again" reform (Box 2.4) and DYPA manages the pilot phase for unemployed and private sector workers. Such accounts could help facilitate learning throughout an individual's career. Because of their portability such accounts would have the potential to reduce inequalities in access as they are accessible to workers with non-standard employment contracts. This could draw on elements of the training accounts developed in countries such as France and Italy (OECD, 2019[61]; 2019[65]). Employers and employees could both contribute to the account and tax credits could encourage contributions above the required minimum. The

government may top up these accounts for priority groups, such as registered jobseekers or social transfer recipients, those with little formal education, with disabilities or other characteristics that make finding work harder, or those working in sectors undergoing significant structural change.

### Figure 2.14. The take-up of lifelong vocational and digital training is low, notably among SMEs




1. Average percentage of workers from small firms (10-49 employees) and medium-sized ones (50-249) participating in Continuing vocational training (CVT). That is training measures or activities which have as their primary objectives the acquisition of new competences or the development and improvement of existing ones and which must be financed at least partly by the enterprises for their persons employed who either have a working contract or who benefit directly from their work for the enterprise such as unpaid family workers and casual workers.
2. Average percentage of workers from small firms (10-49 employees) and medium-sized ones (50-249) participating in Continuing vocational training (CVT), relative to the percentage of workers from large firms (250 employees or more) participating in CVT.
3. Data refer to businesses with 10 or more employees that provided any type of training to develop the ICT related skills of their employees within the last 12 months. Small firms have 10 to 49 employees.
Source: Eurostat (2024), Continuing vocational training in enterprises database; OECD (2024), ICT Access and Usage by Businesses (database).

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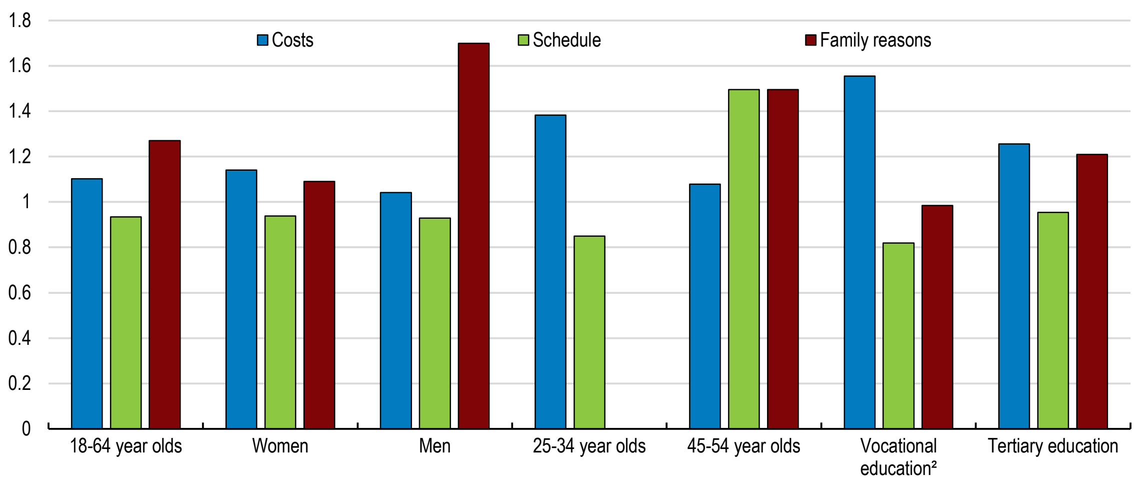
Digital training should remain an important part of the upskilling strategy, as outlined in the NRRP and the National Digital Strategy, given the looming risk to jobs from digitalisation and automation (Hellenic Republic, 2021[56]; 2021[66]). Boosting workers' digital skills can help the many Greek SMEs strengthen their productivity and position in global value chains (GVCs) by helping them to specialise in high-value added activities or to integrate in higher-value added segments (OECD, 2019[67]; Unsal et al., 2024[68]). According to the OECD Survey of Adult Skills, the share of adults with no computer experience is significantly above the OECD average, and Greeks perform relatively poorly in ICT-related tests regardless

of their educational attainment (OECD, 2016[41]). Moreover, ICT specialists are in short supply and employers face difficulties finding ICT specialists (Eurobarometer, 2023[44]).

## Figure 2.15. Costs and time constraints are key barriers for adult learning

Odds ratio of the main reasons for not participating in training in Greece relative to the EU average, 2022[1]




1. Share of the different population groups wanting to participate in education and training quoting costs, schedule or family reasons as the main reason for not participating in training in Greece, relative to the share of the different population groups in the European Union (EU27). 2. Vocational education refers to a vocational degree with upper secondary and post-secondary non-tertiary education (ISCCED levels 3 and 4).
Source: Eurostat (2024), Adult Education Survey (AES) 2022.

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ICT training was low in 2021 (Figure 2.14), but will likely receive a boost from the NRRP plannedtargeted reskilling programmes for digital skills, notably through the new National Academy for Digital Skills (NADS) that provides educational activities and online training. Basic and medium level ICT skills are currently being offered to employed and unemployed workers through an extended network of training providers. Yet, the budgeting of such programmes will need to be secured beyond 2026. Moreover, international experience tends to show that the most effective tools for promoting robotic and digital solutions combine financial support and technical follow-up (Faquet and Malardé, 2020[69]). This could encourage the take-up of digital innovation, as experience from Germany, Finland and Italy has shown (OECD, 2021[70]).

Regular evaluation of learning should be standard across all modes and providers, as currently being developed (Box 2.4). Formal and non-formal education is delivered by a diverse range of formal public education and training institutions and private providers of adult education and training. Informal learning is less structured and often self-taught. More thorough and rigorous evaluation of education and training provision might identify effective ways of upskilling and re-skilling. Greece has already set up a graduate tracking portal (ELA) that provides additional information on the labour market outcomes of graduates from different disciplines in formal education. However, there appears to be little rigorous analysis of the impact of adult training on labour market outcomes (OECD, 2024[46]). Such analysis would help adults better choose their training and would better inform public funding and support for adult training programmes.

### Box 2.5. Boosting SMEs participation in adult learning, international examples

**Training associations in Switzerland**

In Switzerland, the government established vocational training associations (Lehrbetriebsverbünde) in 2004. These associations of two or more training firms share apprentices, whose training is organised across several firms on a rotating basis. The aim is to enable the engagement of firms that lack the capacity and resources to provide the full training of an apprentice, and to lower the financial and administrative burden on individual firms. The federal government subsidises the associations with initial funding during the first three years for marketing, administrative and other costs necessary to set up the joint training programme. After this initial support, the training associations are supposed to be financially independent. An evaluation found that the majority of firms participating in training associations would not have engaged in training otherwise and that 60% of the engaged firms created new training positions.

**Support for SMEs' training in Flanders (Belgium)**

The SME Wallet (KMO-portefeuille) is targeted exclusively at SMEs and is designed to help them grow and become more competitive through training and advisory services. The SME Wallet covers 20-30% of training costs, depending on the size of the enterprise, with a maximum budget of EUR 7,500 per year. SMEs can apply for subsidies online to receive a direct transfer. Employers determine their own training needs. A recent impact assessment determined that participating firms achieved higher growth than a control group.

**Support for training in Germany**

The Qualification Opportunities Law came into effect in 2019. All enterprises can benefit from federal subsidies to cover direct and indirect training costs. Training costs are subsidised to varying degrees, depending on firm size, as well as type of training, characteristics of the worker to be trained, social dialogue and share of employers in need of skill adjustment. Micro-enterprises (MEs) with less than 10 employees have their training costs fully covered, while large companies with more than 2 500 workers can receive subsidies up to 20% of costs. In addition to direct training costs, the subsidy can also cover up to 100% of the wage costs, with coverage rate depending on firm size, type of training and workers' qualification levels.

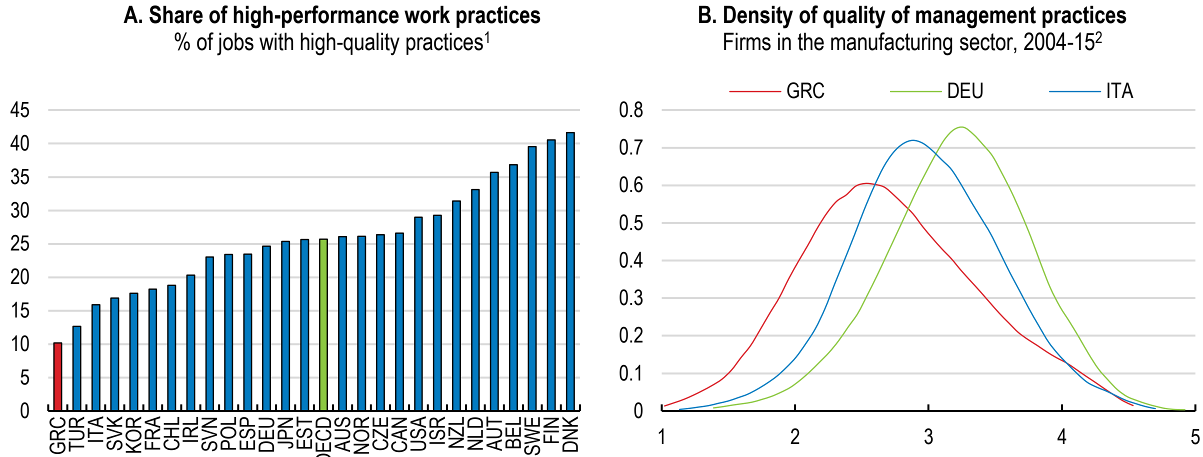
Source: OECD (2019), OECD Skills Strategy Poland: Assessment and Recommendations, OECD Skills Studies, OECD Publishing, Paris, https://doi.org/10.1787/b377fbcc-en; OECD (2019), OECD Skills Strategy Flanders: Assessment and Recommendations, OECD Skills Studies, OECD Publishing, Paris, https://doi.org/10.1787/9789264309791-en. Kuczera M., V. Kis and G. Wurzburg (2009), OECD Reviews of Vocational Education and Training: A Learning for Jobs Review of Korea 2009, https://doi.org/10.1787/9789264113879-en. OECD (2021), Incentives for SMEs to Invest in Skills: Lessons from European Good Practices, Getting Skills Right, OECD Publishing, Paris.

### *Supporting better management skills*

Many Greek firms, notably SMEs, do not have strong human resource infrastructures to implement training policies and, more generally, innovation and growth strategies. A number of studies hint at room for improving management skills, with positive effects on technology diffusion, innovation and internationalisation (Sorbe et al., 2019[71]; Bloom et al., 2020[72]; Martins, 2021[73]). Greek firms appear particularly weak in tasks requiring people management, planning and oversight, or requiring synergies, dialogue and collaboration (Lorenz and Potter, 2019[74]; Anyfantaki et al., 2022[75]). High-performance workplace practices, as measured by the development of teamwork, autonomy, prioritisation, mentoring, job rotation and the implementation of new learning, as well as management practices (including employee participation, pay incentive schemes, training practices and flexibility of working hours), appear lagging

(Figure 2.16) (OECD, 2016[76]; Eurofound and Cedefop, 2020[77]). Many managers of micro and small firms also lack basic financial skills (OECD, 2024[78]). The limited number of highly skilled managers is considered one of the main barriers to growth, and the lack of support from management is a barrier to innovation including the adoption of digital tools or efficient energy management processes.

### Figure 2.16. Management skills have room for improvement




1. Share of workers in jobs where the summary high-performance work practice (HPWP) is above the top 25th percentile of the pooled distribution. The summary HPWP indicator assesses the organisation of work, including teamwork, autonomy, prioritisation, mentoring, job rotation and the implementation of new learning, as well as management practices – including employee participation, pay incentive schemes, training practices and flexibility of working hours.
2. Firms with more than 50 employees. Scores are a measure of management practices across 5 key areas of management: operations management, performance monitoring, target setting, leadership management and talent management. Scores are scaled from 1 (worst practice) to 5 (best practice).
Source: OECD Survey of Adult Skills (PIAAC), 2012, 2015; Bloom et al. (2021), "World Management Survey – Manufacturing" https://worldmanagementsurvey.org/.

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Several OECD countries, including Austria, Finland, Italy and the United Kingdom have implemented programmes to improve the managerial and organisational performance of firms (Box 2.1). This type of active policy support for change in the workplace could be influential in stimulating the adoption of more pro-innovation organisational designs and better skills use (Marchese et al., 2019[79]; OECD, 2021[62]). In complement, diagnostic tools and self-assessment surveys could provide an affordable way for companies to assess their current work organisation and needs. These tools can be built with different objectives, helping companies and employers to assess their needs with regard to skills and professional development specifically, or within the broader context of workplace innovation and digital maturity (OECD, 2021[62]).

Building on these international experiences and the assessment of its own initiatives, the Greek authorities could consider supporting the establishment of co-operation networks to identify and disseminate best practices for stimulating a learning culture in the workplace. The chambers of commerce and group-based interventions can be particularly important for sharing good management practices, with particular value for SMEs (Iacovone, Maloney and McKenzie, 2021[80]). Yet, as in other OECD countries, frictions in information sharing appear to prevent small firms from accessing relevant training (Custodio, Hansman and Mendes, 2021[81]). Government support can provide the impulse for the creation of learning and training networks. Coaching, promoting best practices and disseminating these through the creation of networks of firms are common features of many management training programmes that help smaller firms to compensate for limited internal capacities (Box 2.1) (OECD, 2020[82]). Indeed, Greek firms collaborating on business activities are more likely to innovate than non-collaborating firms of the same size class

(OECD, 2023[6]). However, policies supporting SME network expansion in Greece tend to focus on production and supply chains, with limited support for knowledge exchange (Figure 2.17).

## Box 2.6. Management training programmes in Austria, Finland, Italy and the United Kingdom

**The Impulse Training Networks' grants in Austria**

The Impulse Training Networks' grants in Austria, support networks of three companies with a majority of SMEs to provide work-relevant training (OECD, 2023). The programme allows employers to form co-operative Impulse Qualification Associations (Impuls-Qualifizierungs-Verbund, IQV), to access pooled and subsidised training and consultancy services. The IQV's plan, purchase, organise, and implement work-related training together for their employees to ensure an appropriately qualified workforce. The enterprises in an IQV can use consulting services to support the network at various stages, from setup, to the development of training programmes, and to applying for public grants for in-company training.

**Workplace development programmes in Finland**

The Finnish programmes TYKE (1996-2003) and TYKES (2004-10) aimed to promote the introduction of organisational innovations, contributing to improvements in workplace productivity and the quality of working life through tailored and demand-based activities. More than 1 800 projects were funded, involving nearly 350 000 employees and some EUR 106 million of public funding. The most common areas of focus for the development projects were work processes, the organisation of work and the development of HR management and supervisory work. A majority of managers and staff expressed that the projects had positive impacts on the operational performance of the workplace and quality of work (Lorenz and Potter, 2019).

**Mentoring programme in Italy**

The Turin Chamber of Commerce runs a mentoring programme that encourages the exchange of managerial experiences across international markets with business leaders with personal or professional ties to the Piedmont region (OECD, 2021). The programme consists of a voluntary relationship between a business professional with well-recognised work experience (mentor) and a new entrepreneur (mentee), where the mentor facilitates the professional development of his/her mentees. The programme is open to business owners as well as to high-ranked managerial positions. Mentors are Italian professionals living abroad, with ties with Piedmont by origin, study or work and must have more than 10 years of proved experience in the field of management and business development.

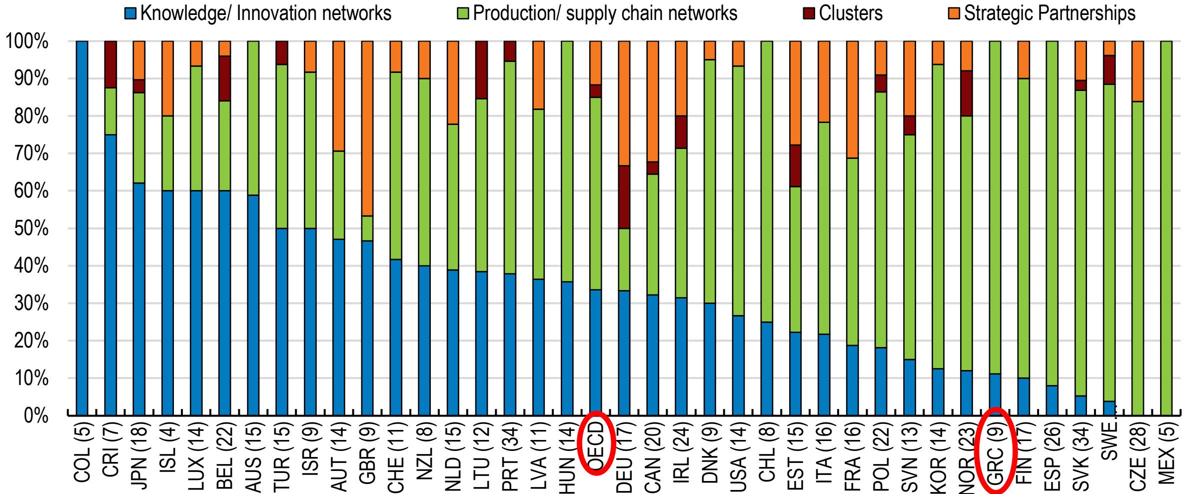
**The Small Business Leadership Programme in the United Kingdom**

In the United Kingdom, the Small Business Leadership Programme (2018) is part of a package of measures to assist businesses in improving their productivity. The programme is a fully funded 10-week management training programme delivered by a consortium of business schools. Targeted at SMEs, it aims to reach 10 000 beneficiaries by 2025 (OECD, 2021). It is accompanied by other measures aimed at strengthening local networks focused on business improvement, and at getting UK's leading businesses signed-up to mentoring programmes (OECD, 2020). SME leaders are further supported through Peer Networks, a programme that brings together diverse cohorts of business leaders through high-impact group discussions and sessions, and by "Be The Business", an independent charity with a large business network, which strongly leverages on practice and knowledge sharing and mentoring.

Source: Lorenz, E. and J. Potter (2019), "Workplace organisation and innovation in small and medium-sized enterprises", OECD SME and Entrepreneurship Papers, No. 17, OECD Publishing, Paris; OECD (2021), Incentives for SMEs to Invest in Skills: Lessons from European Good Practices, Getting Skills Right, OECD Publishing, Paris; OECD (2020), Enhancing Training Opportunities in SMEs in Korea, Getting Skills Right, OECD Publishing, Paris; OECD (2023), OECD SME and Entrepreneurship Outlook 2023, OECD Publishing, Paris.

## Figure 2.17. Expanding support for SME networks can help spread best management practices

Share of national policies for SME network by network type




Note: Figures in parentheses indicate number of policies mapped for each country.
Source: OECD (2023), *OECD SME and Entrepreneurship Outlook 2023*, https://doi.org/10.1787/342b8564-en .

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### *Facilitating the integration of foreign workers and return migrants*

Facilitating the immigration of skilled workers could play an important role in overcoming local skills shortages and improving business internationalisation. Immigrants' country and language knowledge may reduce uncertainty and improve the governance of foreign operations (Ottaviano, Peri and Wright, 2018[83]). Greece's workforce includes a significant share of foreign-born workers but their many skills are often underused (OECD, 2023[1]). The share of the foreign-born population reached 11.2% in 2022 (OECD, 2023[84]) and is concentrated among the working-age population (Elstat, 2022[85]). However, the unemployment rate of foreign-born workers (first generation immigrants) remained close to 25% and 39% for the 15-29 year-old in 2023 (Eurostat, 2024[86]). At the same time, 60% of foreign-born workers with tertiary education were working in low- or medium-skilled occupations (Eurostat, 2024[87]).

Greece scores low in most dimensions of the OECD Indicators of Talent Attractiveness (ITA) (OECD, 2023[88]). Most immigrant workers, even many who are well-educated, work in low-skilled jobs in Greece (OECD/European Commission, 2023[89]; EMN, 2023[90]). Foreign-born workers comprised 29.4% of new low-skill jobs in 2023, 13.8% of middle-skill jobs and 1.7% of high-skill jobs (MLMD, 2024[91]). Over recent years, large shares of immigrants, especially youth and the Greece-born children of immigrants, are unemployed or fully out of the workforce (OECD, 2023[84]). To improve attractiveness as a workplace for third-country nationals and help employers benefit from foreign-born workers' skills, Greece should ease the recognition of their qualifications, joining European and other international initiatives to recognise foreign qualifications and experience (OECD, 2023[1]). One way forward would be to join the Lisbon Convention on the Recognition of Qualifications, but this will require a constitutional change and likely take years. In the meantime, laws 4957/2022 and 5094/2024 facilitated the recognition of degrees by setting up registries of recognized foreign HEIs and academic titles. In addition, reducing its high fees or translation requirements for the recognition of foreign qualifications would to align with other European countries (OECD, 2023[88]; 2017[92]). For those unable to document their qualifications, Greece can develop fair and transparent alternative assessment methods, such as establishing a national system of recognition of prior learning, as currently envisaged. Finally, the large share of foreign-born workers in Greece from countries

with weak professional and vocational education, such as Albania, Georgia and Pakistan, highlights the potential benefits from ensuring these workers can access Greece's reforming vocational education.

Strengthening ties with the large Greek expatriate community, and helping return migration may be another way to enhance firms' access to skills. Returning emigrants could bring skills, networks and financial capital (Oikonomou, 2023[93]; Pissarides et al., 2023[22]). Since 2019, Greece has provided wage subsides for skilled returning migrants and a special tax regime for Greek executives, employees, freelancers and other entrepreneurs relocating to Greece was established in 2021. The 2023 programme "Rebrain Greece" also develops a diaspora skills database to directly connect potential returning migrants with employers. In addition, the "Brain Regain" initiative aimed to repatriate Greeks living and working abroad. The actions part of this initiative include national Greek online hubs and forums in foreign countries mentoring and an online hub for citizens abroad advertising jobs, training, and business and research opportunities at home. More systematic, tailored counselling and general assistance related to employment, housing, education and administrative procedures to start a business could also be helpful, for example, drawing on the Irish "Back to Business" mentoring programme (EMN, 2014[94]).

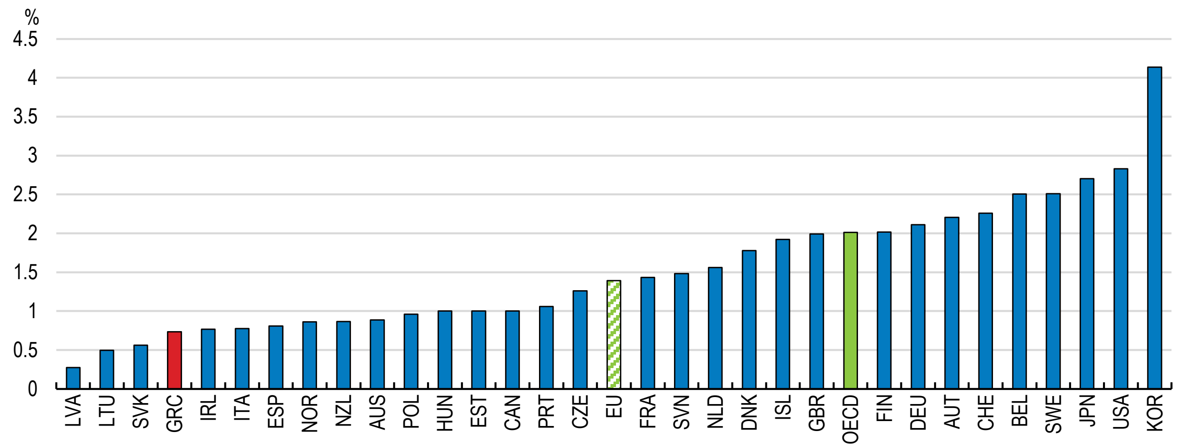
## Boosting access to finance for innovative investments

Business investment in R&D and innovation (RDI) remains limited, despite its rapid increase since 2005 (Figure 2.18). One factor may be Greece's industrial structure with its bias towards less R&D-intensive industries such as business services and medium-low-technology industries. But even after controlling for industrial structure, Greece has a low investment and business R&D intensity compared to the OECD average (Hua, Méndez and Xu, 2022[95]).

Access to finance appears a far greater barrier to private firms' investment plans in Greece than in other OECD countries (Figure 2.19), due primarily to limited finance from banks, especially for SMEs, and few alternative sources of finance (EC, 2023[59]). The government's loan guarantees, introduced as part of the COVID response package, led to a temporary increase in lending to SMEs (OECD, 2024[96]). However, many firms still face significant financing challenges (EIB, 2024[97]; EIF, 2023[98]), especially for long-term funding needed for investments in intangible assets, skills and technology that is difficult to finance without own funds and limited collateral.

### Figure 2.18. Business R&D intensity remains low

% of GDP, 2022 or latest available year




Source: OECD (2024) Main Science and Technology Indicators (MSTI database).

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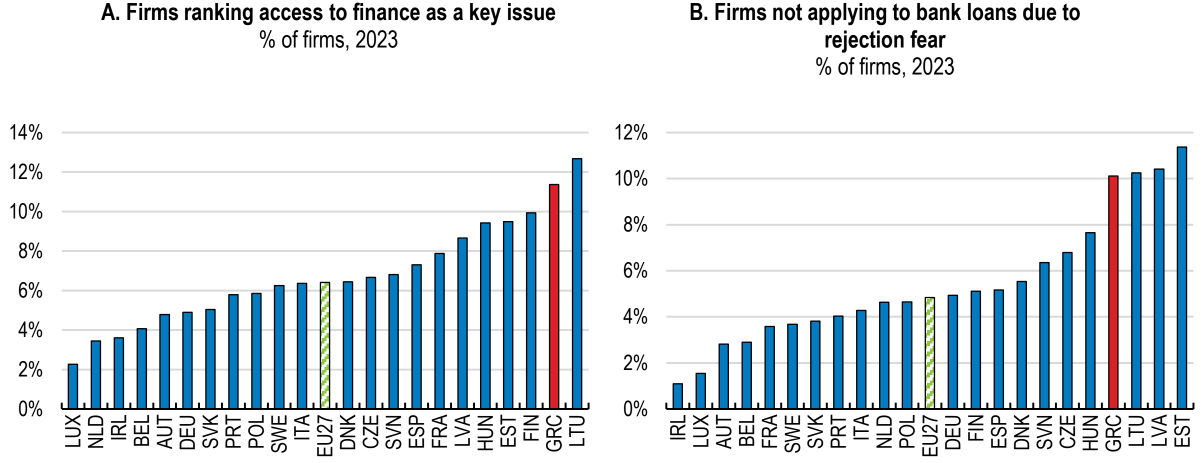
## Figure 2.19. Access to finance remains a key constraint




Source: ECB (2024), Survey on the Access to Finance of Enterprises (SAFE).

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### *Developing access to bank finance*

*Dealing with the stock of non-performing loans*

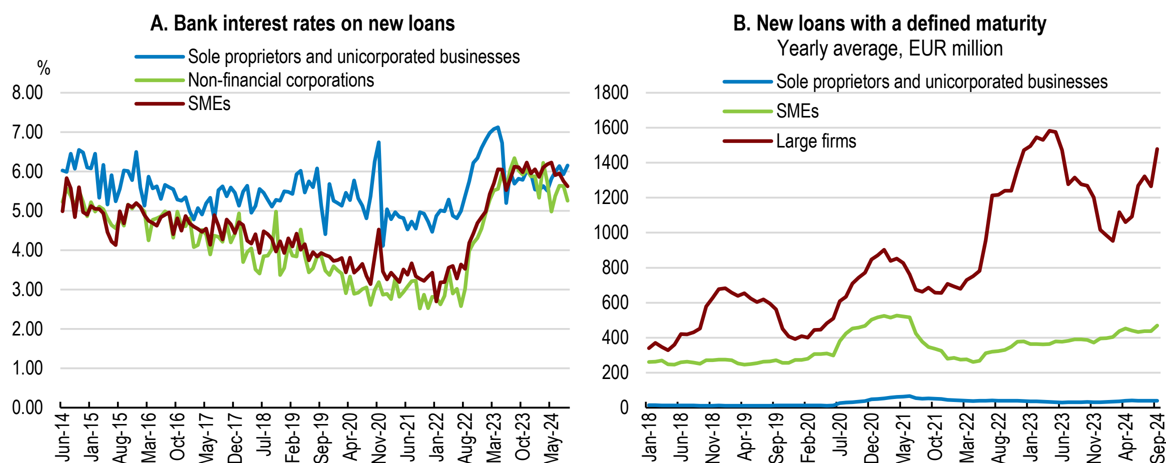
Greece's large amount of legacy non-performing debt hampers access to finance and its workout remains a challenge for the economy. Following Greece's decade-long economic crisis, many firms, notably SMEs, are not considered to be bankable. Non-performing debt effectively block their debtors and their remaining assets, restricting them from accessing new credit to rebuild or restart business. Considering the dominance of banks in the Greek financial system, these firms are often cut off from Greece's main market-based source for obtaining external finance to fund investments. Dealing with non-performing loans on banks' balance-sheets and distressed debt in the non-bank financial sector more decisively would contribute to expanding access to bank finance.

The banking sector remains burdened by a high, albeit considerably reduced, non-performing loans ratio. State-supported securitisations under the Hercules Scheme (set to expire in December 2024) have been a key driver behind the sharp reduction in the stock of non-performing loans on bank balance-sheets from 49.1% in early 2017 to 6.5% in December 2023. The scheme enabled the sale of NPLs to a private securitisation vehicle that could subsequently sell more senior securities backed by these assets and guaranteed by the state to credit servicers. Its coverage of securitised NPLs reaches EUR 43 billion in mid-2023 (19.4% of GDP). While this helped to address legacy challenges, risks have migrated to the non-bank financial sector and the scheme has been less successful in opening up new bank financing to SMEs. The bulk of new credit has remained concentrated in large firms and interest rates for both SMEs and large firms increased again in 2022-23, reversing a downward trend that had lasted for nine years (Figure 2.20, (OECD, 2024[96])).

Distressed debt handled by the credit servicers still needs to be restructured to facilitate access to finance, firm growth and resource reallocation. Credit servicers are in charge of recovering former NPLs that were offloaded from banks' balance sheets: at end-2023, the distressed debt under recovery stood at EUR 69.5 billion (31.3% of 2023 GDP), down from 87 billion in March 2022, of which a third is due by corporations and 17% by SMEs (Bank of Greece, 2024[99]). Greek credit servicers, engaged in managing portfolios under the Hercules scheme, have a commitment to achieve performance objectives of NPL recovery through agreed business plans. However, they have repeatedly fallen behind on original performance targets (IMF, 2024[100]). The delay in the workout compared to the original plans is mainly the result of low

recoveries from collateral liquidations owing to the suspension of enforcement proceedings during the COVID-19 pandemic. However, delays in court procedures, a high ratio of unsuccessful auctions and the illiquid secondary market for NPLs also slow the process (Figure 2.21)

## Figure 2.20. Credit developments and situation of non-financial corporations




Source: Bank of Greece (2024), Interest Rates on Bank Deposits and Loans; Bank credit and deposits.

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Accelerating the reduction of non-performing debt held by banks and credit servicers should remain a priority. Additional tools, such as the 2020 insolvency code and its out-of-court workout framework, are already bringing positive results (EC, 2023[59]). The main design characteristics of Greece's insolvency framework, such as the time to discharge, creditors' ability to initiate restructuring, the presence of pre-insolvency regimes, the possibility and priority of new financing or the possibility to 'cram-down' on dissenting creditors, appear now close to OECD best practices.

Outstanding tax arrears are another issue preventing access to bank finance. Tax arrears (including debt considered not collectable) reached 203% of total net revenue in 2021 (OECD, 2023[101]). The setting-up of the Greek Independent Authority for Public Revenue (IAPR) has allowed significant gains in the collection of tax arrears (EC, 2023[102]). The IAPR has re-oriented resources towards recovering collectable tax arrears and progressively writing off those deemed to be uncollectable. New procedures have slowed down the accumulation of new tax debt. These involve sending reminders about forthcoming tax-payment deadlines, contacting all taxpayers who missed the deadline within the first 30 days and following up on those who still do not pay. Moreover, risk analysis procedures are being increasingly used to evaluate and prioritise each month's unpaid tax debt cases (OECD, 2020[2]). Further progress will hinge on detailed assessments of debtor payment capacity and compliance history to avoid the high drop-out rate observed for previous instalment schemes (IMF, 2019[103]). The OECD Tax Debt Management Network (TDMN) produces a Debt Management Compendium of innovative working practices that could be of use to Greece.(Figure 2.21) (André and Demmou, 2022[104]). These mechanisms help debtors, banks and credit servicers in tackling the accumulation of private debt through more effective restructuring solutions. However, the time needed to resolve civil, commercial, administrative and other cases remained significantly above the European Union average in 2021 (EC, 2023[105]). The use of out-of-court procedures remains modest and could be further expanded, although it has picked up significantly (Ministry of Finance, 2024[106]).

Accelerating the insolvency cases that are stalled in the court system would help clear the legacy of the past crises (OECD, 2023[1]). This is one of the objectives of the 2024 reform of the judicial system (Box 2.7). Faster and more efficient insolvency procedures could contribute to higher private investment and facilitate

the reallocation of capital and other resources to more productive companies. The staffing and capacity of the courts should be enhanced, as well as their geographical distribution, notably by increasing the number of court clerks per judge. While the number of courts is not particularly low in international comparison (CEPEJ, 2022[107]), some first-instance courts appear to operate with insufficient human resources, while others have poor performance indicators despite sufficient staffing (World Bank, 2023[108]). The technological infrastructure for insolvency proceedings also has room for improvement (CEPEJ, 2022[107]). Easing procedures of e-auctions of foreclosed properties would require improving the digitalisation and operations of the cadastre and land registry (see above).

### Box 2.7. The 2024 reform of the judicial system

The 2024 reform of the organisation of the judicial system (Law 5108/2024) was voted in May 2024 and it is expected to be implemented in September 2024, as part of the Recovery and Resilience Plan (Hellenic Republic, 2021[56]). The authorities foresee to cut by 30% the time needed for a first instance ruling.

The government aims at balancing the uneven distribution of cases and reducing delays.

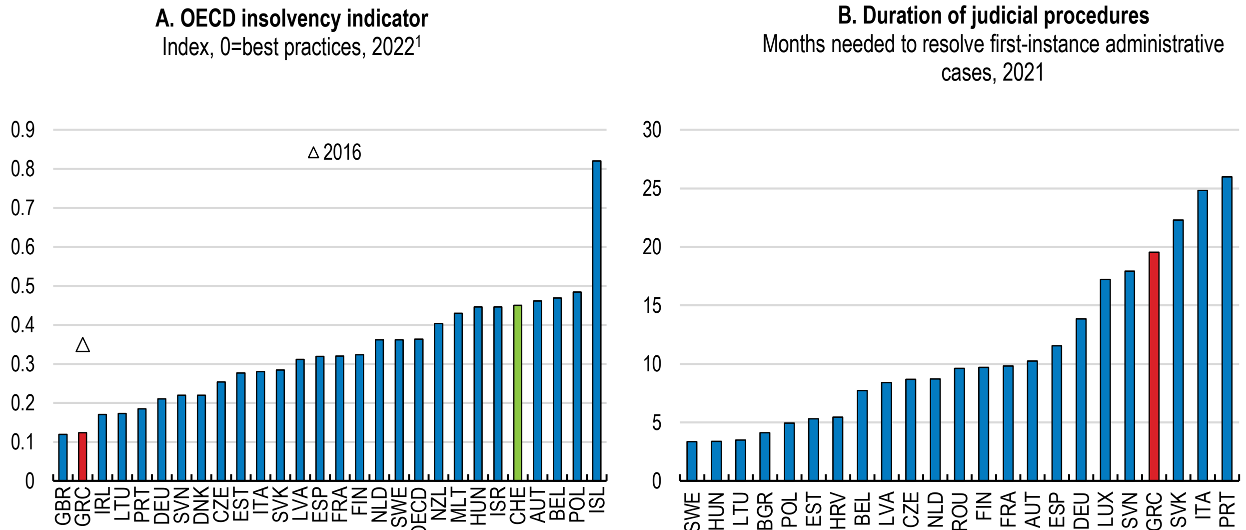
The reform package affects three key areas:

- The reorganisation of first instance courts will merge the different categories of first instance courts and first instance court judges and magistrates. This will redistribute large categories of cases to specific courts.
- A new judicial map will define main regional courts and detail where and how courts will operate throughout the country, some small courts will be closed. The new court management system will also focus the role of the head of the court on judicial duties.
- Changes to the judicial procedures will be based on increased digitalisation and simplification. This is accompanied by an upgrade of the existing infrastructure and measures to improve the skills of judges and judicial staff and to accelerate justice administration.

Source: Hellenic Republic (2021[56]), *Greece 2.0 National Recovery and Resilience Plan*, Hellenic Republic; Ministry of Justice (2024), Law 5108/2024 on the "Consolidation of the first degree of jurisdiction, spatial restructuring of the courts" https://www.hellenicparliament.gr/Nomothetiko-Ergo/Anazitisi-Nomothetikou-Ergou?law_id=838d13db-796f-42f8-a3fa-b157017e30e2

Outstanding tax arrears are another issue preventing access to bank finance. Tax arrears (including debt considered not collectable) reached 203% of total net revenue in 2021 (OECD, 2023[101]). The setting-up of the Greek Independent Authority for Public Revenue (IAPR) has allowed significant gains in the collection of tax arrears (EC, 2023[102]). The IAPR has re-oriented resources towards recovering collectable tax arrears and progressively writing off those deemed to be uncollectable. New procedures have slowed down the accumulation of new tax debt. These involve sending reminders about forthcoming tax-payment deadlines, contacting all taxpayers who missed the deadline within the first 30 days and following up on those who still do not pay. Moreover, risk analysis procedures are being increasingly used to evaluate and prioritise each month's unpaid tax debt cases (OECD, 2020[2]). Further progress will hinge on detailed assessments of debtor payment capacity and compliance history to avoid the high drop-out rate observed for previous instalment schemes (IMF, 2019[103]). The OECD Tax Debt Management Network (TDMN) produces a Debt Management Compendium of innovative working practices that could be of use to Greece.

## Figure 2.21. The insolvency framework has improved, but judicial procedures remain long




1. The scores are scaled from 0 to 1, with lower scores indicating more favourable frameworks.

Source: OECD 2022 Questionnaire on insolvency frameworks ; European Commission (2023), 2023 EU Justice Scoreboard Quantitative Data Factsheet.

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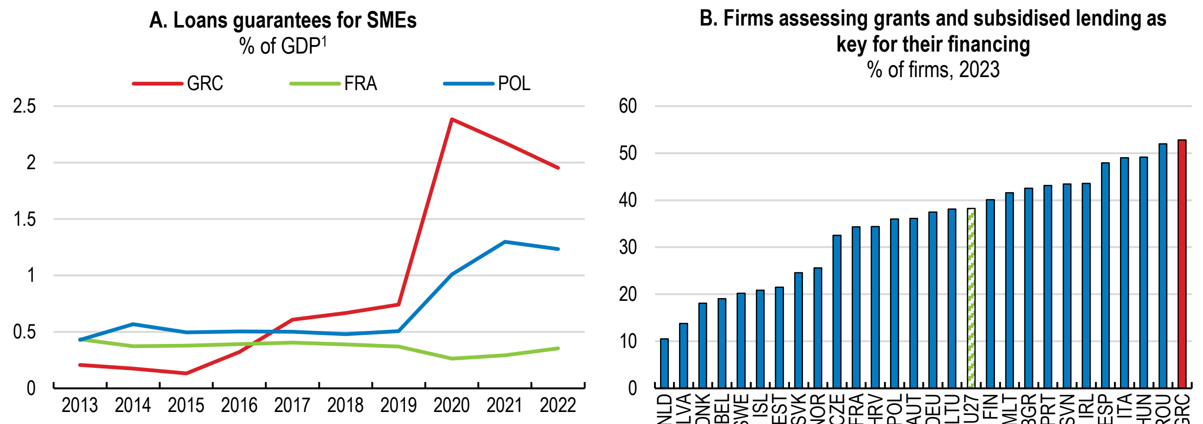
### *The take-up of subsidised lending and guarantees has increased rapidly*

Beyond measures to increase the number of bankable firms, the authorities have taken numerous steps to support access to finance for SMEs and start-ups. As in other OECD countries, loan guarantees were one of the most widely used policy instrument used by governments to facilitate SME access to finance, notably during the COVID-19 pandemic (OECD, 2024[96]). Though their amount decreased in 2022, government loan guarantees still reached EUR 4 billion in 2022 (2% of GDP) and many firms assess grants and subsidised lending as key for their financing (Figure 2.22). Yet, in 2022, the existing guarantee programmes covered only 4.2% of Greek SMEs, a relatively small share compared to Spain (6.3%) or Portugal (8.9%) (AECM, 2023[109]).

The Hellenic Development Bank (HDB), created in 2019, provides financing targeted to small and medium-sized enterprises (SMEs), as well as support for exports, sustainable development and innovation. The HDB also aims to facilitate investments in infrastructure, encourage equity investments and other alternative financing sources and provide business support to SMEs, mainly through shared-risk loans and guarantee facilities, as well as financial expertise to the public sector. It replaced the Hellenic Fund for Entrepreneurship and Development (ETEAN) created in 2011. HDB's scope is to improve SMEs' access to finance and foster innovation. In addition to the HDB, several funds aim at improving SMEs' access to finance, combining the national budget, the private sector, and the ERDF's funds (Box 2.8).

These programmes have been successful at raising bank lending. While this may help overcome market failures that limit SMEs' access to finance, there is also a risk of going too far and creating new distortions. For example, large government support may induce bank forbearance, allow the survival of low-productivity firms, lower long-run efficiency and crowd-out alternative financing sources (Adalet McGowan, Andrews and Millot, 2017[110]; Hong and Lucas, 2023[111]). Greece should evaluate the effects of its public credit guarantee schemes in the last decade, especially their fiscal costs, the degree to which they may have supported mature, low-productivity ("zombie") firms, as well as potential negative spillovers towards non-targeted firms (OECD, 2023[1]). Making anonymised micro data available to external researchers would be helpful to support an independent evaluation of these programmes.

## Figure 2.22. Loan guarantees have increased rapidly




1. For Greece, 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).

Source: OECD (2024), Trends in SME and entrepreneurship finance in Greece; ECB (2024), Survey on the Access to Finance of Enterprises (SAFE).

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The authorities are also on-lending loans from the EU Recovery and Resilience Facility to private investors (RRF, Box 1.2). The on-lending strategy seeks to provide financing at below-market costs to address Greece's private investment gap, without requiring direct contributions from public finances. The impact on available funding is substantial (OECD, 2023[1]). Fully disbursing the RRF loans will provide EUR 17.7 billion, of which EUR 16.7 billion (7.5% of 2023 GDP) will be channeled through commercial banks between 2022 and 2026, targeting new private investment projects in the RRF priority areas. So far, the take-up of RRF-financed loans has been significant. In January 2024, commercial banks had co-financed projects worth EUR 10.3 billion, of which EUR 4.4 billion though RRF loans and EUR 3.5 billion through bank loans (Bank of Greece, 2024[112]). The national budget bears 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 risks, it is important to continue to monitor the programme carefully. A more complete evaluation of its economic impact, notably its additivity, would also help to ensure its safeguards are fully implemented, and to proactively adjust the strategy should weaknesses emerge.

## Box 2.8. Main programmes to ease access to finance for firms

**The loan facility of the EU Recovery and Resilience Facility (RRF)**

The loan facility framework supports investments related to the green transition and digitalisation (37% and 20% of the total allocations, respectively). It finances the provision of loans through international financial institutions and commercial banks (EUR 11.7 billion), the establishment of an equity instrument to provide equity support to dynamic mid-caps and SMEs through two Fund-of-Funds schemes (EUR 500 million, see Box 2.9), and the mobilisation of additional funds for Greece's part of the InvestEU Programme, through guarantees to companies in the areas of green and sustainable transformation, competitiveness, innovation and digitalisation (EUR 500 million).

**EU Cohesion policy funds**

As part of the competitiveness programme of the European Regional Development Fund (ERDF, see Box 2.10, EUR 921 million are available for developing business access to finance through subsidised loans and public guarantees, and venture capital funds.

**Main loan programmes of the Hellenic Development Bank (HDB)**

Since 2018, **the Entrepreneurship Fund II** has provided low-cost loans to SMEs to pursue four objectives: establish new innovative export-oriented enterprises; modernise and bring innovation to existing firms; enhance the internationalisation of Greek SMEs and enhance business participation in solidarity actions. As of late April 2023, 20 558 loans, worth EUR 2.3 billion, had been approved.

Since 2021, **the Investment Guarantee Fund** provides guaranteed investment loans to SMEs. The Fund is managed by the European Investment Fund (EIF), which acts as a guarantor of investment-purpose loans, up to 80%. The Fund is co-financed by national and the 2014-2020 European Regional Development Fund (ERDF) amounting to EUR 100 million.

Since 2022, **the Innovation Guarantee Fund (IGF)** aims at strengthening the competitiveness and internationalisation of Greek entrepreneurs by supporting Research and Development. With a budget of EUR 64.5 million, it has reached 59 beneficiaries by May 2023.

Since 2023, **the Business Growth Fund (BGF)** with a total budget of EUR 840 million provides funding for liquidity, as well as green and digital investments.

**In addition, subsidies for existing SMEs loans affected by the COVID-19 pandemic** were launched in April 2020 until mid-2022 and co-funded by the 2014-2020 European Regional Development Fund (ERDF) and the Greek authorities. The public budget was EUR 750 million, covering 19 700 loans, worth EUR 6.2 billion loans. Other smaller programmes operate at the regional level, such as the 2017 West Macedonian Regional Development Fund (TADYM), or target specific purposes, such as the Guarantee Fund HDB for specific construction work.

Source: OECD (2024[96]), Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard, OECD Publishing, Paris.

### *Raising alternative forms of finance*

Diversifying financing instruments and sources would bolster SMEs' resilience to volatile credit markets and help them manage their debt. The OECD recommendation on SME Financing and the 2022 Updated G20/OECD High-Level Principles on SME Financing provide guidance in this regard (OECD, 2023[113]; 2022[114]). FinTech can help lower information asymmetries, by leveraging the speed, security and transparency of digital technologies. FinTech may enhance the efficiency of allocation of finance, reaching underserved segments and regions and strengthening the ecosystem for SME finance. Developing online

lending intermediated by FinTech platforms can improve efficiency and increase competition and diversification in lending.

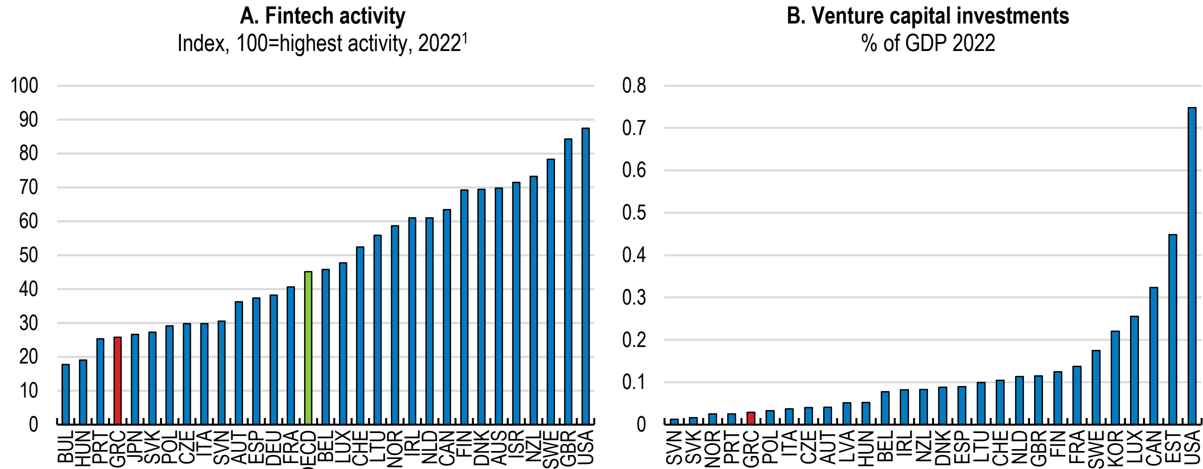
Non-bank finance and FinTech can be particularly complementary when the traditional banking sector is impaired, by providing small and medium-sized companies (SMEs) an alternative to conventional bank lending (Kaousar Nassr and Wehinger, 2016[115]). Traditional banks are not well suited to financing new and riskier digital start-ups with innovative business models but little collateral (OECD, 2015[116]). While developing an ecosystem of alternative sources may take some years, it will also take 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.

Regulators can help develop alternative sources of finance in Greece by being proactive and aligning their strategies. The Baltic countries have been especially successful in developing the FinTech sector, increasing the number of new FinTech start-ups by 70%. This was supported by comprehensive strategies, and cooperation with neighbouring jurisdictions to expand their market size (OECD, 2023[1]). Supportive domestic regulations can help Greece attract the wholesale funds for marketplace lending platforms, and 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' performances improves FinTech markets' performance (OECD, 2022[117]). Policy makers can support this, for example by developing common Open Data platforms, as the Bank of England is developing. Collaborating with regulators elsewhere in the European Union would help align Greece's markets with others, and can help regulators in this quickly evolving area.

Opportunities offered by equity and quasi-equity to finance SME investments could also be developed further (Figure 2.23). Venture capital can be especially supportive of 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 (Box 2.9). 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.

Improving financial education would complement the measures to expand the use of capital markets. Adults' financial knowledge appears low and further efforts to improve financial literacy could help to limit financial risks for households in the longer term, as proposed in the OECD strategy to raise financial literacy (OECD, 2024[78]). While micro, small and medium-sized business owners possess a "general financial literacy" that is higher than the rest of the population, there are noteworthy gaps. In particular, around 40% of owners of micro and small businesses do not know what a dividend is, one fifth does not understand how changing loan maturities affects both monthly payments and interest, and one third struggles with the concept of equity. Less than half are confident enough to approach banks and external investors to obtain financing for their business.

### Figure 2.23. The take-up of alternative forms of finance remains low




1. Aggregate index of fintech activity. The index is based on four components: investments in fintech companies, the use of fintech credit, the use of digital payments and the number of downloaded financial applications.

Source: OECD (2023), Financing SMEs and Entrepreneurs: An OECD Scoreboard, 2023 Highlights; OECD (2024), Entrepreneurship Finance Database; World Bank (2022), Global Patterns of Fintech Activity and Enabling Factors - Fintech and the Future of Finance Flagship Technical

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### Box 2.9. Support for venture capital in Greece

Support for venture capital financing includes the 2016 **EquiFund** created by the government and the European Investment Fund (EIF). It is financed by national funds and Hellenic Development Bank (HDB), the European Regional Development Fund (ERDF), the EIF and the European Investment Bank (EIB). For the 2021-27 period, public support reaches EUR 250 million.

The **Hellenic Development Bank of Investments** (HDBI) created in 2019 runs "Restructuring", "Made in Greece", "4IR", and "Debt" Funds with a EUR 700 million public contribution. These Funds provides financing to support SMEs through Venture Capital Funds. In addition, HDBI launched the Green Greek Funds (EUR 400 million), the Co-investment Fund (EUR 100 million), and the Accelerate Technology Transfer Fund (EUR 60 million) in 2020-21. In 2022, HDBI established the Innovate Now Fund and the Q-equity Fund with public participation worth EUR 500 million in the framework of the National Recovery and Resilience Plan "Greece2.0".

Source: OECD (2024[96]), Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard, OECD Publishing, Paris.

## *Strengthening business R&D and innovation support*

Beyond policies to improve access to finance, increasing innovative investment also requires that firms and investors expect good returns on their projects. Firms' innovative expenditures, including firm R&D spending, can boost productivity and their gains may be shared with other firms through knowledge and information spillovers. In this respect, public support to increase such investments appears justified. The government fosters innovative investments through tax incentives and direct funding of business R&D and innovation. Moreover, it can play an important role as a customer for new technologies, for example through public procurement (Chapter 1).

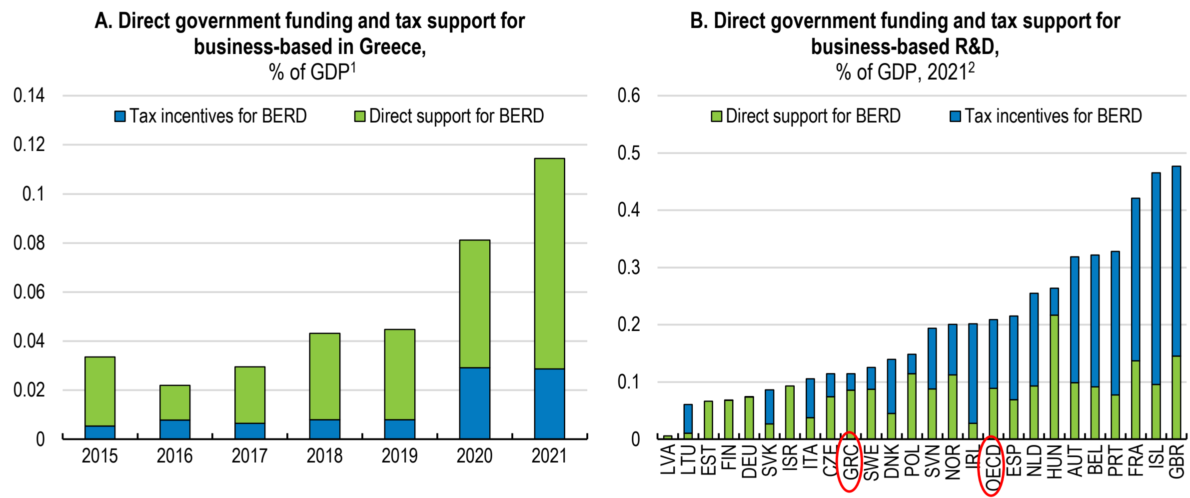
Tax incentives for R&D have seen their preeminent role in the business R&D support policy mix in OECD and EU countries reinforced but, despite this increase, remain relatively modest in Greece (OECD, 2021[118]). In 2021, tax incentives accounted for around 55% of total (direct and tax) support for business

R&D in the OECD, but only a quarter in Greece (Figure 2.24). A 2020 reform raised the rate of the volume-based R&D tax allowance from 30 to 100%, and with a five-year carry-forward the marginal tax subsidy rate for profit-making (lossmaking) SMEs in Greece appears above the OECD median. However, the number of firms that benefit from the R&D tax relief had stalled in 2016-19, before increasing again in 2020, and most of tax benefits go to larger firms (OECD, 2023[119]; Spilioti et al., 2021[120]). This scheme should be rigorously evaluated to ensure that the R&D tax incentives are clear, automatic and easy to access, and that SMEs as well as large firms are aware of them. This could help increase the take up, as the procedures for controlling and certifying these expenses seem to be time-consuming (Kalogirou et al., 2021[121]).

Further targeting R&D tax incentives could also increase their effectiveness, as there is currently no threshold or ceiling in the Greek scheme. Across OECD countries, R&D tax incentives often target firms and activities to induce larger R&D investment for a given tax expenditure (OECD, 2023[119]). In particular, the R&D tax incentives could target young firms and SMEs, given that the R&D investment by large firms is generally less responsive to tax incentives. An OECD study based on firm-level data on R&D found that across 20 OECD countries, one euro of R&D tax credit induces 1.4 euros of R&D by firms with less than 50 employees whereas it induces only about 0.4 euros of R&D by firms with 250 or more employees (OECD, 2020[122]; 2023[123]). One option could be to directly target the tax credits to smaller firms as in the United Kingdom. Alternatively, an upper bound on the amount of R&D spending that qualifies for R&D tax incentives could be set, as done in many OECD countries, and, following Germany, the tax subsidy could be increased below that threshold (Aghion, Chanut and Jaravel, 2022[124]). Some countries like Korea, Spain or Portugal also offer hybrids of a volume-based R&D tax incentive topped by an incremental one (OECD, 2022[125]).

Other measures could improve firms' responsiveness to tax support. OECD analysis shows that the impact of R&D tax incentives is nearly twice as large when refund provisions are available in the case of loss, and three times as large when tax incentives are redeemable against payroll taxes or social security contributions and thus disconnected from the profit situation of firms (OECD, 2023[123]). However, refundability would represent a higher cost for the government.

## Figure 2.24. Business R&D tax incentives have increased from a low level




1. BERD stands for Business enterprise expenditure on R&D.
2. Data for Brazil, Denmark and the United States are for 2020. Data on tax support for BERD also includes subnational tax support for Canada, Hungary and Japan.
Source: OECD R&D Tax Incentives, April 2024 (database).

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Many public grants also target innovative investment in Greece, and historically constitute the bulk of public financing for business innovation (Figure 2.24). Direct funding has recently increased with the absorption of the funds of the NSRF 2014-2020 and the implementation of the National Smart Specialisation Strategy for Innovation 2021-27 and it is set to increase further in the coming years (EC, 2022[126]). For example, the R&D programme "Research-Innovate" of the 2021-27 programming period with an estimated budget of EUR 300 million has recently been launched to support collaboration schemes of public research entities and the business sector. In addition to loans and guarantees and equity instruments (see above), these diversified sources of funding for firms and innovations are expected to support business at different stages of development. 83% of public direct funding was concentrated in SMEs in 2020 (OECD, 2024[127]). Grants are in principle appropriate for supporting early-stage innovation by young firms, which generally lack the profits to benefit from non-refundable tax credits. OECD analysis shows a similar degree of input additionality for direct funding compared to tax support (OECD, 2023[123]).

The main challenge is to utilise the large inflows of EU and state financing tools efficiently (Box 2.8, Box 2.9, and Box 2.10). Research policy management and funding sources have long been fragmented across several ministries: the General Secretariat for Research and Innovation (GSRI), the Hellenic Foundation for Research and Innovation (HFRI) and regional authorities and they undergo frequent changes (EC, 2023[128]; OECD, 2020[2]). Coordination amongst these policy advisory and management bodies has been inadequate, with no administrative separation of research funding management between universities and research centres. Moreover, the various bodies involved in the financing of research activities are still characterised by high levels of bureacracy, which is due to specific laws, regulations and provisions that hinder the research projects (e.g. slow evaluation procedures). As a result, past programmes have been unequally used during the 2014-20 programming period (EY and IOBE, 2023[129]).

### Box 2.10. Main direct financing schemes for business R&D and innovation

#### The National Recovery and Resilience Plan

The National Recovery and Resilience Plan (RRP, Greece 2.0) provides EUR 17.8 billion in grants and EUR 12.7 billion in loans under the Recovery and Resilience Facility (RRF) over the period 2021-2026, of which 61% would fund the green and digital transitions. The Pillar 4 "Private investment and transformation of the economy" aims at disbursing grants worth EUR 4.9 billion. In particular, EUR 375 million are dedicated to the digitalisation of businesses and the Component 4.5 (Promote research and innovation) seeks to increase R&I public and private investment, strengthen the links between science and business with EUR 444 million (EC, 2021).

#### The European Regional Development Fund

In 2021-27, the European Regional Development Fund (ERDF) targets investments worth EUR 10.8 billion to support the green transition and EUR 1.4 billion in the digital transformation. The ERDF aims at boosting research and innovation and growth in sectors linked to Greece's smart specialisation strategy (ESEE) adopted in June 2022 (digital technologies, sustainable energy and tourism, culture, creative industries), through direct funding and subsidised lending (see Box 2.8). The national component is financed by the competitiveness programme of the EDRF (EUR 3.9 billion) and the RRP.

Source: EC (2021), Analysis of the recovery and resilience plan of Greece ; GSRI (2022), National Smart Specialisation Strategy 2021-2027 Synopsis June 2022.

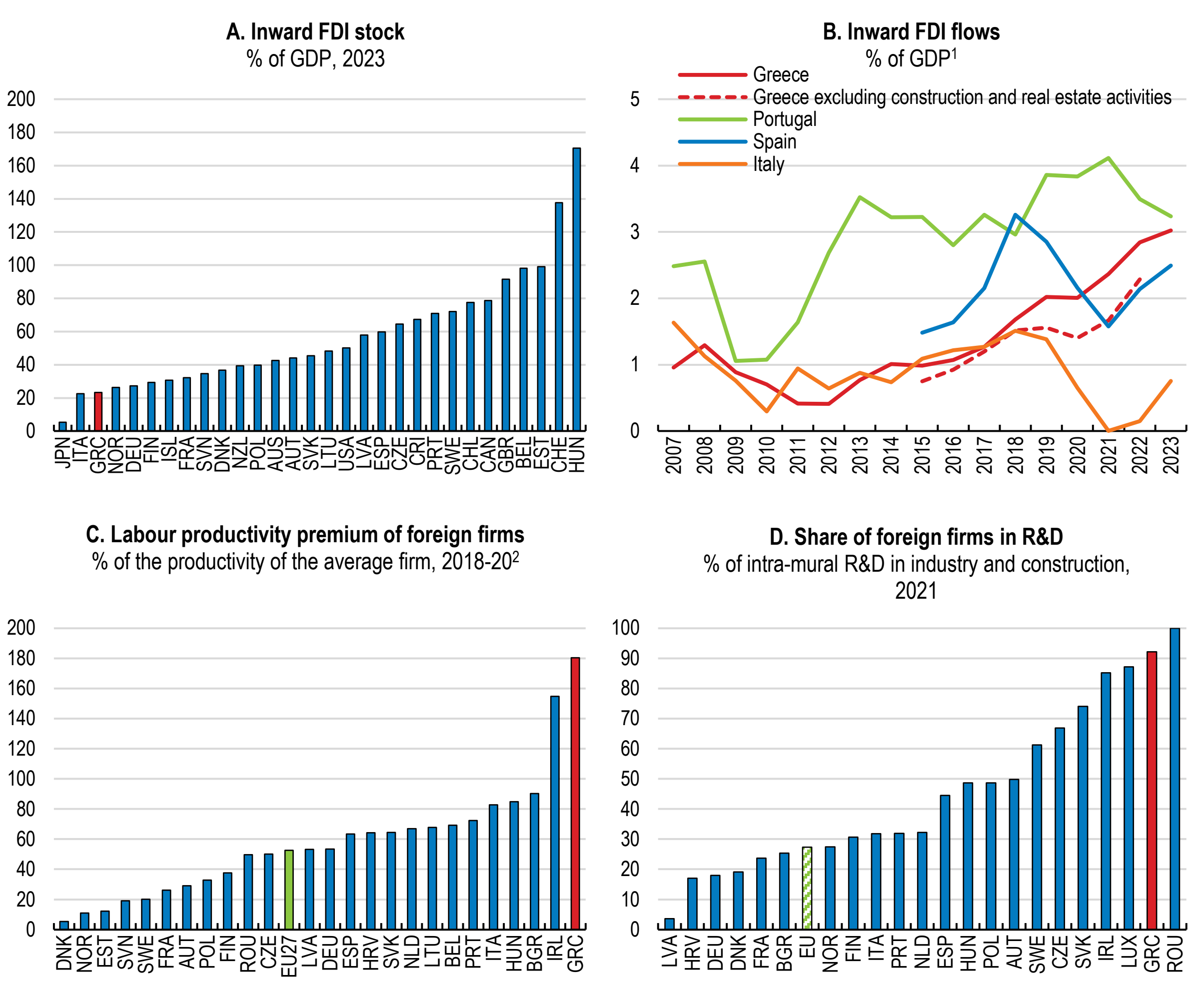
### *Improving FDI linkages with the entrepreneurial ecosystem*

Foreign direct investment (FDI) can be a vehicle for financing improvements in the capital stock and innovation, as well as for the dissemination of digital-intensive and greener technologies by connecting domestic firms to international markets (OECD, 2023[130]). These features can be particularly critical for Greece, given its relatively low level of trade for a small open economy. Foreign enterprises tend to hire

more high-skilled workers than domestic firms, possibly because their business operations might involve more advanced technologies or more complex tasks, which increases the demand for skilled labour and tend to pay higher wages than domestic firms (OECD, 2019[131]). FDI may also generate knowledge spillovers to local firms as they observe the advanced products and management practices of multinational enterprises (MNEs). Such demonstration effects can indeed stimulate innovation by local firms competing in the same industry. Local firms in upstream or downstream industries, which benefit from the use of advanced intermediate goods supplied by MNEs or technology transfer from MNEs associated with a buyer-supplier relationship (OECD, 2022[132]).

Greece could do more to leverage inward FDI as a driver of innovation and an opportunity for the internationalisation of innovative Greek firms. Greece's stock of inward FDI as a share of GDP lags behind other OECD countries, especially other small open economies (Figure 2.25, Panel A). This mostly reflects historically low inflows, which however have rapidly increased to reach 3% of GDP on average over 2021-23 (Panel B) (EY, 2023[133]).

### Figure 2.25. FDI investment has picked up, but linkages with domestic firms could improve




1. Three-year lagged moving average.
2. The labour productivity premium of foreign firms is measured in percentage of the productivity of the average firm in the business economy (domestic and foreign). Labour productivity is measured as value added per worker.
Panel A: data for 2023 except for JPN, GRC, NOR, FIN, FRA, AUS, LTU, PRT and BEL (2022).
Source: OECD (2024), FDI Statistics (database); Eurostat (2024), Foreign-controlled enterprises statistics - inward FATS (database).

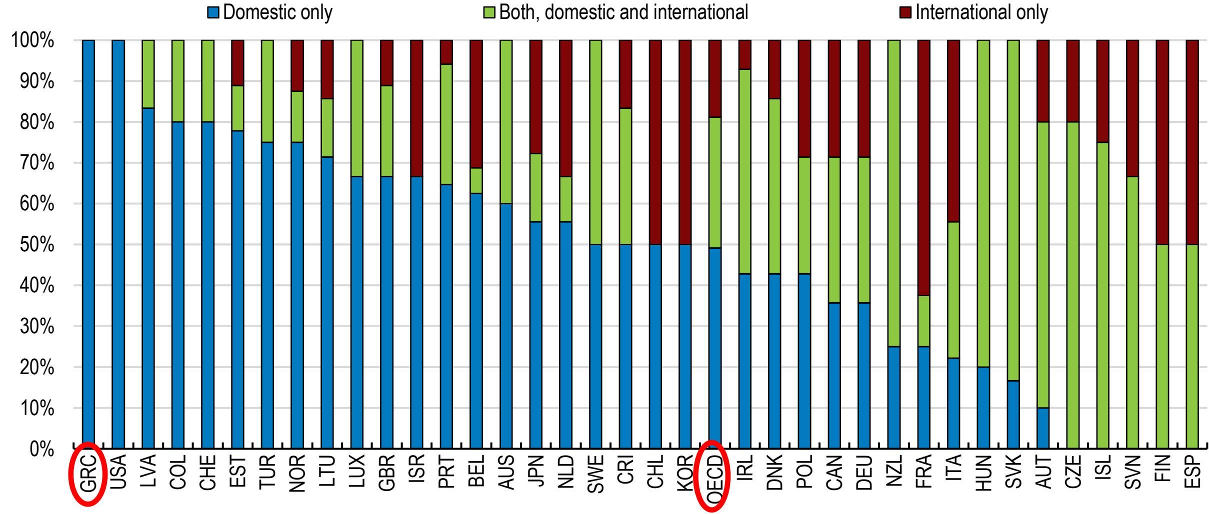
StatLink https://stat.link/juid65

Reflecting the relatively small size of the inward investment stock compared to other OECD economies, foreign-owned enterprises accounted for just 7.5% of jobs in the private sector in 2021 and 23% of private sector value added produced in 2020. However, the gap vis-à-vis domestic firms is sizeable which hints at the historically limited absorptive capacities of many domestic firms (Figure 2.25, Panels C and D): the productivity premium of foreign firms is large and around 90% of the expenditure on in-house R&D that took place in industry and construction in Greece in 2021 was accounted for by foreign-controlled enterprises (Eurostat, 2024[134]).

Greece's relatively open regulatory stance creates favourable conditions for foreign direct investment (OECD, 2024[135]). Nonetheless, there are still some regulatory hurdles (see above) which, if removed, could further increase Greece's FDI attractiveness. More should also be done to increase spillovers from FDI to domestic firms, notably SMEs. Network support policies are focused exclusively on domestic linkages, in contrast to most OECD countries (Figure 2.26).

### Figure 2.26. SME networks could target more international linkages

Share of SME innovation-related network policies by geographic scope




Note: Shares calculated among policies supporting networks for either knowledge/innovation, clusters, or strategic partnerships.
Source: OECD (2023), OECD SME and Entrepreneurship Outlook 2023, https://doi.org/10.1787/342b8564-en.
StatLink https://stat.link/na6twr

Among OECD countries, Greece stands out with policies that focus on increasing the absorptive capacity of SMEs, but do not target the the diffusion channels themselves (OECD, 2023[136]). Developing SME network policies focusing on international partnerships would also support spillovers from foreign-owned companies to domestic firms. In particular, strengthening access to knowledge-intensive business services can help to build international linkages. Slovenia, for example, gives subsidies and simplified access to micro firms for accessing knowledge-intensive business services, including on intellectual property protection and internationalisation (OECD, 2023[6]). Additionally providing matchmaking services and events to reduce the information barriers that prevent foreign investors from identifying local suppliers or customers could support SMEs' integration, such as in the Slovak Republic and Spain (Box 2.11). A stronger focus on the quality of FDI would also help, as contrary to other agencies, the Greek investment promotion agency "Enterprise Greece" tends to rely predominantly on metrics relating to the number and value of investment projects (Sztajerowska and Volpe Martincus, 2021[137]).

### Box 2.11. International practices to develop linkages between domestic SMEs and foreign firms

**Matchmaking services in the Slovak Republic**

In the Slovak Republic, the investment promotion agency supports several matchmaking programmes targeting foreign firms and their affiliates, including the flagship Business Link events and Slovak Matchmaking Fairs, implemented under the auspices of the Ministry of the Economy. Several sourcing and cooperation events are also organised throughout the year as part of the National project "Support of the internationalisation of SMEs 2017-2023", geared to strengthen the internationalisation capacities of SMEs and help them access global value chains. Many of these matchmaking services target FDI-intensive sectors, focusing in particular on manufacturing (e.g. engineering, automotive, transport, chemicals, and energy).

**Measures to link FDI and SMEs in Bulgaria**

In Bulgaria, the national SME promotion agency BSMEPA runs an online platform to advertise requests of foreign companies looking for partners in the domestic industry (e.g. local suppliers, local exporters, potential business partners). In addition, the BSMEPA runs a dedicated project to support domestic SMEs' participation in business fairs, exhibitions and conferences within the country and abroad, in a view to enhancing their export activities, facilitating the establishment of direct contacts and commercial linkages with foreign partners, and fostering their integration in European and international markets.

Source: OECD (2023[136]), Policy Toolkit for Strengthening FDI and SME Linkages, OECD Publishing, Paris; OECD (2022), Strengthening FDI and SME Linkages in the Slovak Republic, OECD Publishing, Paris.

## Main policy findings and recommendations

| MAIN POLICY FINDINGS | RECOMMENDATIONS (Key recommendations in bold) |
|---|---|
| **Strengthening framework conditions for innovation and firm growth** | |
| The frequent use of short-notice legislative changes and of amendments limit quality control and stakeholder consultations for draft legislation, despite existing public consultation requirements. | **Ensure the effective and timely consultation of stakeholders on new draft legislation and regulations, including by avoiding emergency legislations.** |
| Regulatory impact assessments are required for all new legislation but lack relevant information to guide decision making and often do not contain quantitative impact assessments. | Require regulatory impact assessment to consider more effective alternatives to regulations, including `do nothing' options, and to evaluate the impact on innovation and on competition of all new primary legislation and subordinate regulations.<br>Ensure that civil servants involved in producing assessments possess the necessary skills and capacities. |
| There is no systematic, formalised process to review burdens from existing legislation. The government is engaged in the review of regulations, but the process has made slow progress. | **Formalise and accelerate the review of existing business regulations in cooperation with businesses and union representatives.** |
| Regulations continue to pose barriers to entry and competition in professional services, including lawyers and notaries, hurting downstream activities that rely on these services. | **Ease regulatory restrictions in professional services such as lawyers and notaries, including with respect to market entry, pricing of legal services and professional cooperation between lawyers and notaries.** |
| Emerging technologies like Artificial Intelligence pose new regulatory challenges. Finding the right regulatory approach will require experimentation. | Consider establishing a regulatory sandbox on digital technologies, such as the proposed EU AI Act, to promote regulatory experimentation and foster innovation. |
| Having access to broad networks of firms and organisations allows SMEs to compensate for limited internal capacities to grow and innovate. | Support knowledge networks, clusters and strategic partnerships, including with foreign firms and organisations, for example by promoting access to knowledge-intensive business services for micro firms. |
| **Improving adult training to provide skills for innovation** | |
| Providing more resources for job-search and training programmes could help for re-skilling and matching jobseekers with jobs. | Employ more specialised counsellors and a job-seeker profiling tool to target support in public employment services and better support job-seekers. |
| Public employment services are spending a disproportionate amount of effort on direct job creation. Direct financial incentives for upskilling and reskilling are limited. | **Rebalance the high share of support for direct job creation towards more training and counselling for unemployed workers.** |
| The number of counsellors per job seekers remains low, despite recent progress. This hampers the effective implementation of active labour market polcies and the new activation requirements for access to public employment services and benefits.. | Continue to increase the number of counsellors to ensure that quality employment services are provided to jobseekers and to support the implementation of the mutual obligation requirements. |
| Skill mismatches are pervasive and employers often cannot find workers with the skills they need. Despite mounting training needs and the ongoing development of performance-based assessments for providers, participation in lifelong learning is low and training quality is patchy. | **Ensure the quality of training providers through regular quality assessments and improved certifications of adult learning courses.**<br>Adopt individual training accounts, as currently experimented, to make training rights portable from job to job. |
| The pandemic has accelerated the transition to a digital economy, but the take-up of digital technologies by small businesses remains low. Many very small firms have limited management capacity. | Expand and subsidise access to quality management training for small- and medium-sized business management, including to digitalise their business operations. |
| Foreign-born workers make a significant contribution to Greece's workforce, but their skills are under-used. | **Establish a national system for the recognition of prior learning and facilitate the recognition of education and skills gained abroad.** |
| **Easing access to finance for innovative investments** | |
| Large legacy stocks of non-performing loans hamper access to bank loans for many firms. Insolvency procedures remain long. | Reduce the length of court procedures, building on the recent bankruptcy law and the 2024 reform of the judicial system. |
| Adults' financial knowledge is limited, even among SME managers. | Roll out financial literacy programmes for owners of micro and small businesses. |
| Loan guarantee programmes for SMEs have increased rapidly and risk to lock-in resources in low-productivity firms and crowd-out alternative financing sources. | **Systematically evaluate loan-guarantee and subsidised lending programmes for SMEs.** |
| The R&D tax credit has increased but its take-up remains relatively low. Most of its support accrues to large firms, while innovation in young firms and SMEs is often more responsive to tax incentives. | Evaluate the effects of the R&D tax credit scheme and adjust it accordingly.<br>Target the R&D tax credit towards young firms and SMEs and make it refundable. |
| FDI penetration has risen rapidly but has further scope to increase. Support for Greek firms trying to establish domestic transactions with multinational enterprises or foreign affiliates can be strengthened. | Encourage spillovers from foreign direct investment to domestic firms by developing SME network policies focusing on international partnerships.<br>Provide online platforms and consulting services to SMEs and MNEs seeking to collaborate. |

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# GREECE

Greece's economy has been outpacing the euro area average since 2021. Support measures protected households and businesses against high inflation, while public debt declined significantly. Growing disbursements of the Recovery and Resilience Funds, continuous employment gains and disinflation, and recent structural reforms are all expected to support growth. However, significant challenges lie ahead. Sustaining primary surpluses and preserving public investment are essential to maintain the debt-to-GDP ratio on a firmly declining path. This requires shifting the structure of public spending towards investment, lowering tax expenditures and tackling tax evasion further, building on recent progress. Strengthened vocational education and training, as well as better recognising prior learning and developing childcare capacity, are needed to mobilise larger parts of the working-age population and ease high labour shortages and skill mismatches. Boosting the rising, yet still relatively low level of labour productivity and investment while decoupling of emissions from activity and adapting to climate change are key to achieve sustainable rise in living standards. Further strengthening competition, reducing the regulatory burden and improving access to skills and financing would support firm growth and innovation. A mix of investment, regulations and emission pricing would help achieving net zero emissions by 2050.

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