Navigating the headwinds to sustainable growth: strategies for Greece

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Greece has rebounded from the COVID crisis. The tourists enjoying the beaches, restaurants and museums across Greece over the summer and as late as November are among the more visible signs of this rebound. Their numbers and spending approached the historical pre-COVID peak of 2019.

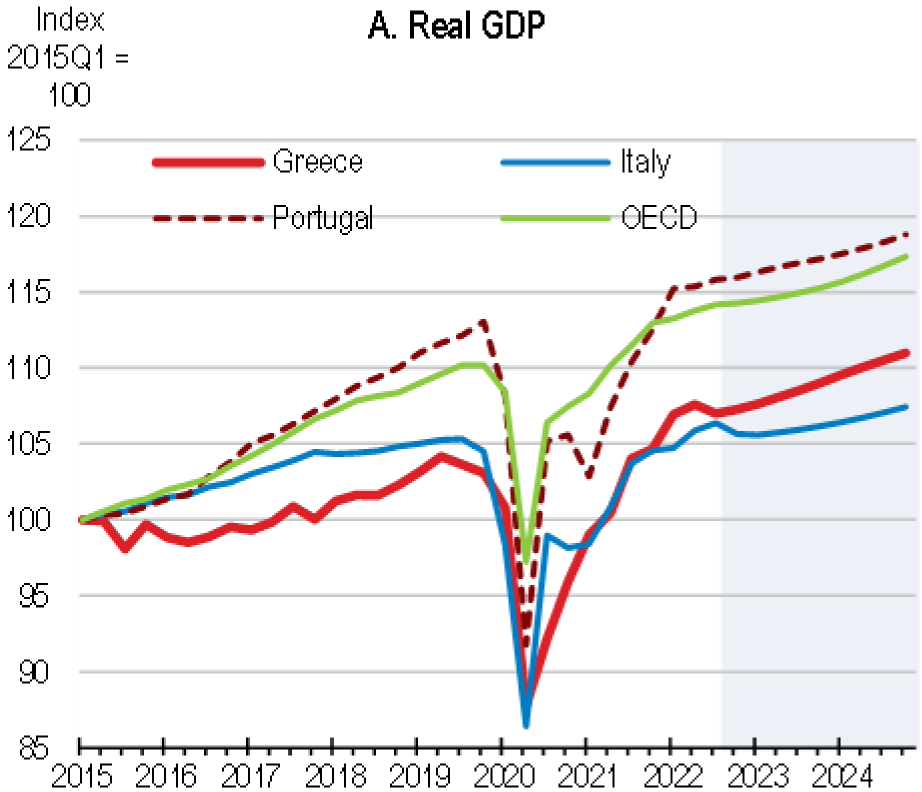
There are signs across Greece that the recovery has been much broader and deeper than a wave of post-lockdown holiday-makers. The ancient port of Piraeus is vibrant with record levels of activity and construction as wharves are extended and new cargo handling facilities are added. In the offices surrounding it, shipping agencies and fleet owners have been working long hours to help the global economy navigate the shifting demands and logistical complexities of the COVID crisis.

In sparkling new office parks and research centres around the northern centre of Thessaloniki, investments have been signed to develop pharmaceutical research and production, and to set-up world-leading software and IT development centres.

Across the country, hundreds of the projects laid out in the Greece 2.0 Recovery and Resilience Plan are already improving the quality of infrastructure and the business environment.

However surging energy and other primary commodity prices, especially since Russia’s invasion of Ukraine, have generated strong headwinds that have slowed Greece’s economy. The newly-launched 2023 Economic Survey of Greece projects that growth will slow from 5.1% in 2022 to a little over 1% in 2023.

Greece’s recovery from the COVID crisis has been strong



Source: OECD Economic Outlook 112 (database), updated; OECD Main Economic Indicators (database); and Eurostat.

How can Greece successfully navigate through these headwinds, and set course for sustained growth and improving living standards? The Economic Survey identifies four priorities for Greece:

1. *Healthy public finances.* Keeping public debt ratios on a downward path is central for Greece achieving investment-grade sovereign debt rating, and with it readier access to less expensive financing for investment. Maintaining a primary budget of 1.5% to 2.0% of GDP would support better debt dynamics. Greece can sustain such surpluses while better supporting activity. On the one hand, it can reallocate funding to spending that best supports growth, such as infrastructure, education and active labour market policies, while limiting other areas such as the overall public payroll costs. On the other, maintaining revenues is also important. Focusing future tax rate changes on expanding the base of taxpayers, limiting tax expenditures and raising compliance,

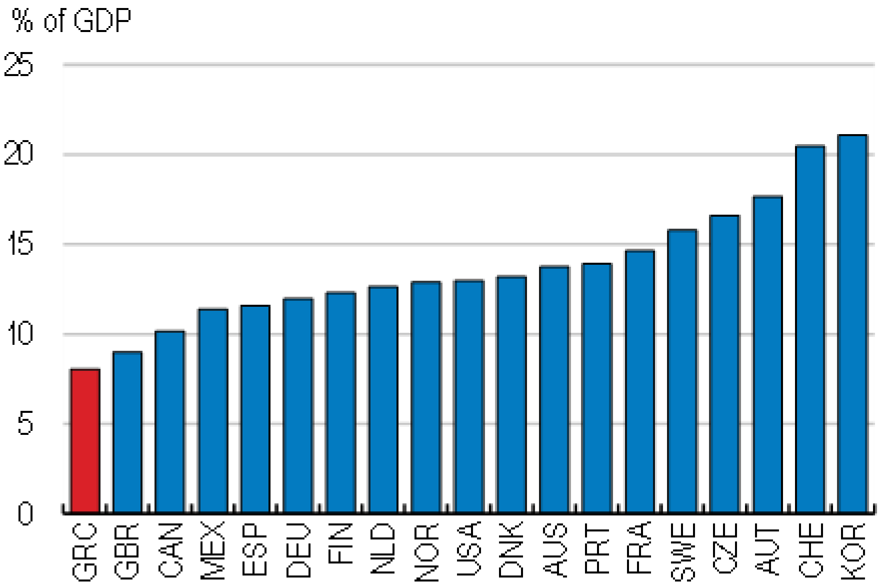
can maintain revenues while reducing the economic weight of taxes.

2. *Financing for investment.* The Hercules securitisation scheme is helping the main banks clear their backlog of non-performing loans. Much more efforts will be required to rebuild banks’ capital bases such that they re-start financing new investment. Developing non-bank financing can help circumnavigate the problems in the banking sector, better support smaller and medium-sized firms’ growth, and develop new businesses. Ensuring financial market regulations support transparency and information sharing, can help develop these sources.

3. *A dynamic business environment that stimulates investment.* A decade of reforms and the Greece 2.0 measures are greatly improving Greece’s business environment, as recognised by OECD indices and other global ratings. Ensuring these reforms improve outcomes on the ground, and addressing the remaining weaknesses, however, is a marathon. Lower entry barriers, prioritising professional services, and strengthening the Hellenic Competition Commission and other economic regulators to improve competition can raise the dynamism of Greece’s markets. Improving the legal system’s effectiveness is central for firms in Greece, and fully integrating the justice system in the different measures to review and simplify all administrative processes could help accelerate progress.

Strengthening private investment would support long-term growth

Private business investment, 2021



Source: Calculations based on data from OECD Economic Outlook.

4. *A workforce ready for emerging opportunities.* The post-COVID rebound has lifted the total number of people in work to the highest level since 2010 – and has even led to shortages of skills in sectors ranging from construction to IT. Promoting flexible work arrangements and encouraging young fathers to take up the new paid paternity leave, would activate more women, including in areas where skills are in short supply. The ongoing reforms to the public employment service, particularly to develop mutual obligation requirements centred on tailored personal action plans for the unemployed, can help them enter work. In the longer term, engaging more adults (both young and mature age) in higher-quality re-skilling programmes can ensure that the workforce has the skills to make the most of the opportunities offered by the digital and green transitions.

These measures will help Greece shift from the post-COVID rebound onto a path of sustained growth. This will be key for Greece to address the fundamental longer-term challenge of achieving a net-zero greenhouse gas emission economy and adapting to a changing climate. Priorities to address this challenge will be the topic of a forthcoming ECOSCOPE blog and an Economics Department Working Paper.

References:

OECD (2023), *OECD Economic Surveys: Greece 2023*, OECD Publishing, Paris, https://doi.org/10.1787/19990286.