Greece Diagnostic

Julia Brouillard, Peter Sanfey, Dimitris Sourvanos

January 2021

European Bank
for Reconstruction and Development

Country diagnostics are an EBRD tool to identify the main obstacles to entrepreneurship and private sector development and to help shape the Bank's strategic priorities and project selection in new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in the country.

Each country diagnostic assesses the progress and challenges of the country of operations in developing a sustainable market economy. Private sector development and entrepreneurship are at the heart of the Bank's mandate in the regions of operation of the bank, but the private sector in all EBRD countries faces a range of problems and obstacles. The diagnostic highlights the key challenges facing private companies and shows where each country stands vis-à-vis its peers in terms of six qualities of transition – competitive, well-governed, resilient, integrated, green, and inclusive – and points out the main deficiencies and gaps in each quality.

The diagnostics draw on a range of methodologies and best practice for assessing how big different obstacles are. Extensive use is made of in-house expertise across the EBRD, along with surveys such as the Business Environment and Enterprise Performance Survey (**BEEPS**) and the Life in Transition Survey (**LiTS**), as well as other cross-country surveys and reports from institutions such as the World Bank, World Economic Forum and OECD. For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical for private sector development in the country.

The diagnostics are led by the EBRD's Country Economics and Policy team, drawing substantially on the expertise of sector, governance and political experts in the Economics, Policy and Governance department (EPG) and consulting widely with relevant experts across the EBRD when preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

The views expressed in the diagnostic papers are those of the authors only and not of the EBRD.

For more information, go to: www.ebrd.com/publications/country-diagnostics and www.countrydiagnostics.com

European Bank
for Reconstruction and Development

Greece Diagnostic

January 2021

This report was prepared by Peter Sanfey, Julia Brouillard and Dimitris Sourvanos, with contributions from Sector Economics, Governance and Political Affairs, Gender and Inclusion, and Country Economics pillars in the Department of Economics, Policy and Governance, EBRD. We thank participants in a seminar hosted on 19 January 2021 by the Hellenic Observatory, London School of Economics, for helpful comments. The views in this paper are those of the authors only and not necessarily of the EBRD.

Executive summary

By early-2020, the Greek economy had been improving steadily for more than two years after a deep, nearly decade-long economic crisis. The coronavirus pandemic abruptly interrupted the recovery, putting the economy back into recession and shifting the focus of the authorities towards short-term crisis-mitigation measures. However, the authorities' commitment to reform will be crucial in the post-pandemic period. In the long run, key obstacles to private sector development in Greece, which pre-date the escalation of the pandemic, will need to be tackled to ensure a robust and sustainable recovery:

- **Standards of governance are uneven.** Persistent problems, which are being addressed only gradually, include the complex legal framework and inefficient judicial system. Despite notable progress in many areas including those of public administration, digitalisation (especially during the Covid-19 outbreak), and tax collection, further improvements should remain a priority.
- **The banking sector is still recovering from the crisis.** A slow recovery is taking place in the sector but non-performing exposures are still excessive, impairing profitability and holding back lending.
- **Integration into global value chains (GVCs) is weak.** Greece has one of the lowest levels of GVC participation in the EU, reflecting problems with infrastructure and barriers to trade.
- **Inefficient state-owned enterprises remain prominent in the economy.** Privatisation has advanced hesitantly and flagship projects have encountered important delays.
- **The energy sector has potential but remains beset by problems.** Greece's publicly owned energy provider, PPC, is inefficient and loss-making and needs to be reformed and commercialised. Ambitious targets to phase out lignite and promote renewables are welcome but will require significant support for affected areas in terms of reskilling of workers and promoting entrepreneurship and access to finance.

To better understand the key obstacles to private sector development, the diagnostic study provides a short **political and economic overview**, as well as an **overview of the private sector in Greece.** As of early-2021, the political situation is stable and the economy is poised for a sustained period of recovery once the coronavirus crisis subsides. However, private investment levels remain exceptionally low by EU standards and the private sector remains dominated by micro firms which are generally far less productive than medium and large firms.

The diagnostic exercise presented in the paper finishes with a short description of each of the six desirable **qualities of a sustainable market economy,** as per the EBRD's *assessment of transition qualities (ATQ)* methodology for measuring transition. The six qualities are: *competitive, well-governed, green, inclusive, resilient, and integrated*. On a scale of 0 to 10, the highest ATQ score in Greece is for resilience, but governance stands out as the most problematic quality, with Greece being slightly over regional and EBRD averages.

1. Political and Economic overview

1.1 Political economy

Since the fall of the military junta in 1974, Greece has been a parliamentary republic and a multi-party democracy. It has been a member of the North Atlantic Treaty Organization (NATO) since 1952. It joined the European Union (EU) during the second round of enlargement in 1981 and adopted the European single currency, the euro, in 2001. Greece's transition to democracy was largely shaped by two political parties, the centre-left Panhellenic Socialist Movement (PASOK) and the centre-right New Democracy (ND), which alternated in governing the country until January 2015, when the Coalition of the Radical Left (SYRIZA) came to power for the first time. In the elections of July 2019, ND won the plurality of votes and majority of seats in the Greek parliament, forming a single-party government, the first since the start of the Greek crisis nearly a decade ago. Having also achieved major electoral wins in the local elections of 2019, the PM and leader of ND, Kyriakos Mitsotakis, is expected to lead a stable administration for a four-year term.

The process of reforms in Greece can be divided into two periods: the "stagnation period" from 1974 to 2010 and the "monitored adjustment period" from 2010 onwards.[1] In the first period, the dependence of each ruling political party on the support of its broad network of political supporters proved to be a huge obstacle for most of the necessary structural reforms required by the EU. In the second period, the external conditionality, that followed the first Economic Adjustment Programme (bailout agreement) in 2010, signed by the PASOK government, initiated a great number of fiscal and structural reforms within a polarised political environment. Most of these reforms addressed the dysfunctional public administration, the inefficient tax collection system, the over-regulated labour market and the unsustainable pension system. Since then, two more Economic Adjustment Programmes (one in 2012 under an ND-led government; and one in 2015 under a SYRIZA-led government) were agreed between Greece and its international creditors and five snap elections (two in 2012, two in 2015, and one in 2019) and one referendum (in July 2015) on bailout terms have been held, the high frequency being due to the impact of contentious austerity measures on the Greek society. However, the situation following the referendum and the consequent early elections in September 2015 paved the way for a "silent" broad consensus among all major actors. Greece completed the third programme in August 2018, while the SYRIZA-led government of Alexis Tsipras stayed in power for four and a half consecutive years. Close post-bailout monitoring by the country's international lenders has continued, as well as the need for Greece to implement reforms and achieve primary budget surpluses of 3.5 per cent of GDP until 2022, unless differently agreed.[2]

The regulatory system is extremely complex, with laws cross-referencing to other laws that sustain a large-scale bureaucracy, which impedes investments. In addition, perceptions of corruption remain high, as noted in the latest Transparency International Corruption Perceptions Index, with Greece being among the lowest EU performers, despite recent improvements.

Greece's unique geopolitical location at the crossroads of three continents makes the country important for the stability of the region, but also vulnerable to such crises as the refugee one. Migration influx remains a sensitive issue in the country, particularly on the islands of the northern Aegean where the capacities for hosting migrants have been overstretched.

[1] For more, see "From Stagnation to Forced Adjustment: Reforms in Greece, 1974-2010", edited by Stathis Kalyvas, George Pagoulatos, and Haridimos Tsoukas, Oxford University Press, published in 2013.

[2] In light of the coronavirus crisis, the European Commission agreed to relax the 3.5 per cent target for 2020.

1.2 Economic structure

Prior to the outbreak of the pandemic, the Greek economy had been recovering steadily, but a sharp recession occurred in 2020

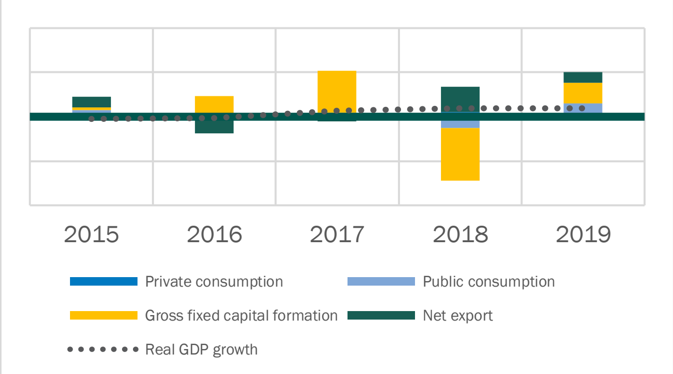
Economic indicators improved slowly between 2017-19. After nearly a decade of deep economic decline, growth returned to the economy in 2017 and continued in the subsequent years, with GDP rising by 1.6 per cent in 2018 and 1.9 per cent in 2019. The recovery was mainly driven by exports and private consumption, and several successful tourism seasons.

Labour markets and social conditions also gradually improved. The unemployment rate continued to decrease steadily, from its peak of 27.9 per cent in September 2013 to 16.1 per cent as of September 2020. Private consumption recovered on the back of increased employment, and disposable income rose by 3.5 per cent in Q3 2019 (y-o-y), the fastest increase since 2007. The at-risk of poverty or social exclusion rate has also decreased, from its peak of 36 per cent in 2014 to 30 per cent in 2019.[3] However, conditions remain challenging for younger people, as youth unemployment is at 33.0 per cent (September 2020).[4]

Fiscal performance has been strong in recent years. The primary fiscal surplus reached 4.3 per cent of GDP in 2018 outperforming significantly the target of 3.5 per cent of GDP. The same target was exceeded again in 2019, with the surplus reaching 3.6 per cent of GDP. In 2020 the government and the European Commission agreed on a relaxation of the target in light of the Covid-19 crisis and in line with the general escape clause of the EU fiscal framework, to allow for crisis-related mitigation measures. The exit of Greece from the European Stability Mechanism (ESM)-financed third adjustment programme in August 2018 and the adoption of debt relief measures by the Eurogroup, as well as recent rating upgrades and successful market emissions, provide some limited leeway for extra government spending and tax cuts once the pandemic crisis subsides and recovery resumes.

Decomposition of real GDP growth

Source: Bank of Greece.



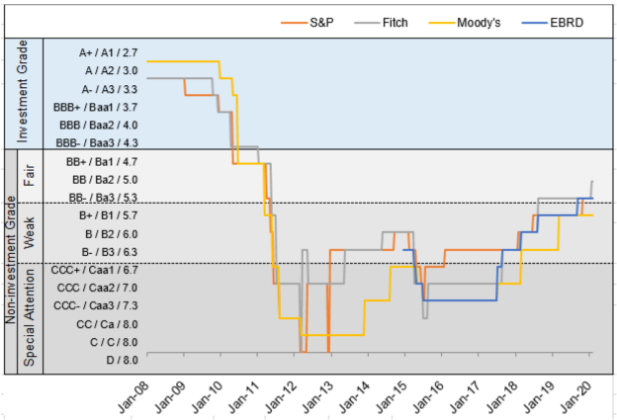
Market conditions had been improving prior to the coronavirus crisis. The resumption of economic growth and the strong primary surpluses in recent years have boosted market and investor confidence and could ultimately lead to a sustained increase in business investment. Greece returned to global capital markets in July 2017 after three years, raising €3 billion (at a yield of 4.6 per cent). The government issued several bonds in 2019, with those in the second half of the year having yields below 2 per cent. However, Greek government bond ratings are still at least two notches below investment grade status, despite having been upgraded regularly by all major rating agencies since January 2016. In January 2020 Fitch upgraded the sovereign rating by one notch to BB and changed the outlook from stable to positive, but changed it back to stable again in April 2020, as the Covid-19 impact on the economy began to be realised. In the same month S&P also changed its outlook from positive to stable while reaffirming the rating at BB-. The latest upgrade was Moody's in Noember 2020, from B1 to Ba 3 (with stable outlook confirmed).

[3] Eurostat, 2020.

[4] Eurostat, 2020.

Greek Government Bond rating since 2008

Source: Thomson Reuters Eikon, EBRD Analysis.

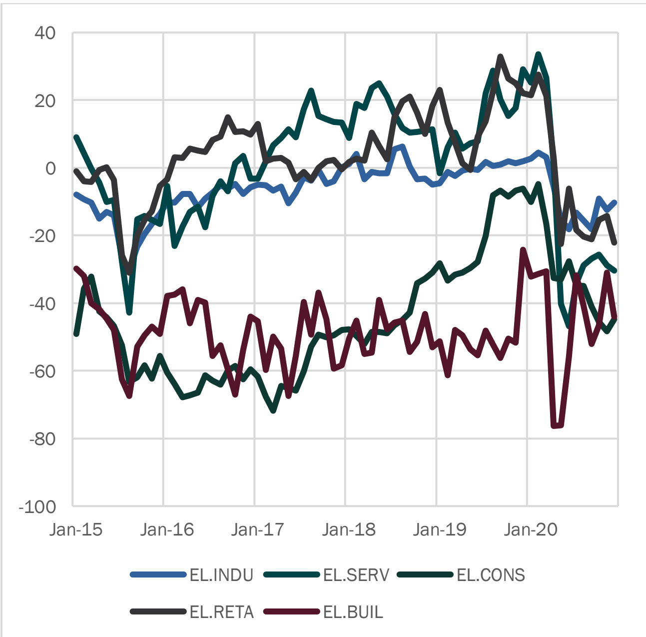


Capital controls have been fully lifted. Effective since September 2019, this measure brought to an end more than four years of restrictions on the free flow of capital.

Economic sentiment, measured monthly by eurostat's Economic Sentiment indicator, was at its highest point since 2000, at 113.2 points in February 2020, more than 10 points higher than at the same point in the previous year. Inevitably, however, confidence has been hit by the coronavirus pandemic (at 91.0 points in November 2020), but remains higher than the EU average (86.7).

European Economic Sentiment Indicator (Disaggregated)

Source: Eurostat, 2020.



Post-programme surveillance continues. Following the completion of the Third Economic Adjustment Programme (August 2015 to August 2018), Greece entered a post-programme enhanced surveillance framework. As of January 2021, there have been eight enhanced surveillance reports, prepared by the European Commission in partnership with other institutions, detailing the progress in reform targets. The eighth report, published in November 2020, noted that there had been a significant stepping up of reform implementation in the months prior to the report, despite the difficult circumstances caused by the pandemic.

The pandemic crisis has abruptly interrupted the steady economic recovery.

The lockdown (schools and all non-essential businesses closed) imposed from 23 March to 4 May 2020 severely affected local business and economic activity, as well as consumption levels. Nominal (real) disposable income of households declined by 0.4 per cent year-on-year in the first quarter of 2020, reflecting the impact of the Covid-19 pandemic mainly from mid-March 2020 onwards, when restrictions were put in place. The halt of virtually all travel across Europe from March 2020 to July 1st heavily affected the tourism sector, which normally represents more than a fifth of GDP. The implementation of confinement measures also reduced consumption and weighed particularly heavily on small and medium size companies. GDP contracted by 15.2 per cent year-on-year (y/y) in Q2 2020 and by 11.7 per cent y/y in Q3. A resurgence of Covid-19 cases in the latter months of 2020 has led to nw restrictions being imposed on citizens and businesses, further depressing economic activity.

The economic effects of the pandemic are heavily weighing on short-term growth. In a baseline scenario for the COVID-19 crisis, the EBRD projected GDP to contract by 9.5 per cent in 2020, with a rebound in 2021 of 4.0 per cent growth, broadly in line with projections of the government, central bank and international institutions.

Policy response to the Covid-19 crisis

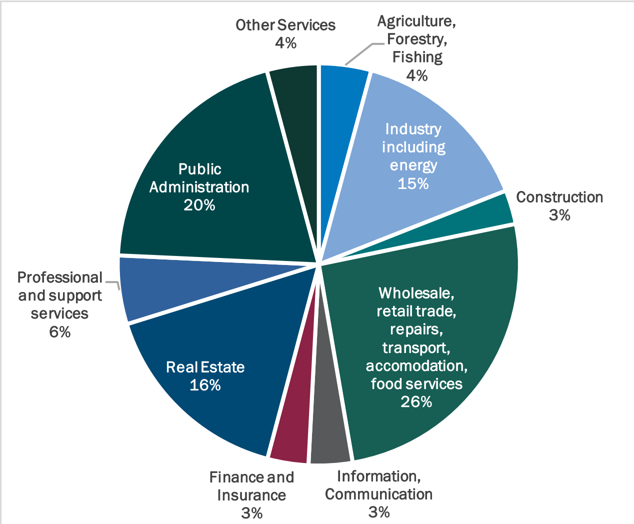
A strong Covid-19 response is being implemented by the Greek authorities to mitigate the economic impact of the crisis. The government introduced a set of one-off fiscal measures estimated at around €15.6 billion (9.1 per cent of GDP), financed from national and EU resources. The measures focus on supporting vulnerable individuals and businesses affected by the pandemic. For vulnerable individuals, there is income support (extension of regular unemployment benefits, 40 per cent reduction in rent for primary residence or €800 allowance for the self-employed and freelancers affected by the crisis). For businesses facing a drop in demand, the government is injecting liquidity into the economy via tax deferrals and guarantees to commercial banks by way of new loans (including a sovereign guarantee scheme of €2 billion in total for working capital loans from the Hellenic Development Bank). Enterprises were able to defer principal payments up to the end of 2020, while individuals affected by the crisis can receive a state subsidy of up to nine months of instalments (backed by primary residence as collateral). The package also includes strong budgetary support for the health sector and value-added tax reductions for goods needed for protection against Covid-19.

The economy is relatively concentrated in a few sectors.

Four sectors account for almost 80 per cent of the economy. The sectors are: domestic trade, transport and food services; public administration, education and social services; real estate activities; and industry (including energy). By this measure, Greece is one of the least diversified economies among all EU countries. The professional sector accounts for only 5 per cent of value added, construction only 2 per cent, finance and insurance 4 per cent and ICT a mere 4 per cent share.

Economic structure : share of real value added

Source: OECD, 2019.



Industry accounts for a low share of GDP. At 15 per cent, the share of GDP accounted for by industry is the fourth lowest in the EU, above only Cyprus, Luxembourg and Malta (the EU average is around 20 per cent of gross value added).[5] In 2017, over 43 per cent of Greece's value of sold production was generated by the manufacturing of food, beverages and tobacco activities.[6]

[5] Eurostat, 2016 https://ec.europa.eu/eurostat/documents/2995521/7715718/2-27102016-AP-EN.pdf/b6dafc70-0390-42f7-8dd2-11ed12e430f8.

[6] Eurostat, 2017

Real estate-related activities account for one-fifth of the economy. The relative importance of the real estate sector in Greece (16 per cent of real value added) is well above the average for other EU countries (1.2 per cent).[7] Renting and operating is the largest subsector within real estate activities. This sector showed strong resilience during the crisis between 2008 and 2016, reflecting Greece's importance as a major tourist destination.

Tourism has been one of the most resilient and dynamic sectors of the Greek economy during the recovery period, With almost 30 million foreign arrivals in the period January-October 2019, the tourism industry, with its strong comparative advantage, was the most reliable driver of growth for the Greek economy prior to the pandemic. In 2019, the sector represented 20 per cent of Greek GDP (or around €35 billion), including both direct and indirect contributions, compared with the global average of 10 per cent. [8] However, it is also highly vulnerable to the coronavirus crisis, and much of the 2020 season was lost. As an example, revenues from foreign tourism in August 2020 amounted to between 30 and 35 per cent of those in August 2019, and the industry as a whole recorded heavy losses in 2020.

The public sector is relatively large, despite efforts to reduce public expenditure. Public administration, education and social services account for 20 per cent of economic activity, close to the EU average (19.1 per cent of GDP) but above EBRD countries of operations (15 per cent of GDP on average).

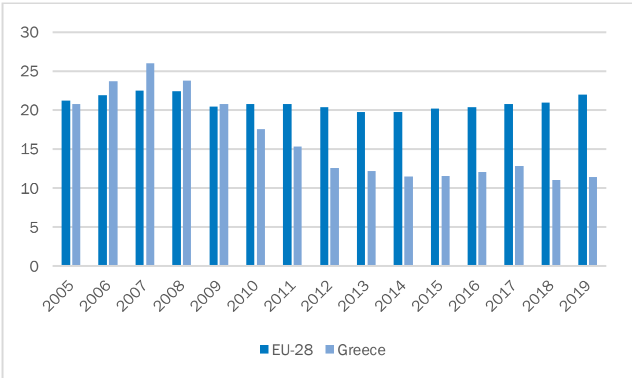
Several years of underinvestment have generated significant investment needs.

Investment remains very low but is slowly increasing after hitting rock bottom levels at the middle of the previous decade. In 2008 gross fixed capital formation was well over €50 billion; in 2016, it had fallen to just €20 billion or a very low 12 per cent of GDP, less than half the average for the other EU EBRD countries of operations. The figures have been somewhat volatile since then, rising sharply in 2017 and falling in 2018, but signs of some investment recovery were apparent in 2019. According to a recent survey, slightly over six in ten firms in Greece invested in 2018.[9]

Public investment (general government gross fixed capital formation) has also been reduced from 5 per cent of GDP in 2007 to 3 per cent of GDP in 2016 (EU28 average is 2.8 per cent of GDP in 2016).[10] Between 2010 and 2017, public investment co-financed by the EU accounted for about 80 per cent of total public investment. The large share of EU funds protected public investment from more severe cuts during the crisis.

Gross fixed capital formation as a percentage of GDP

Source: Eurostat, 2020.



Foreign direct investment (FDI) has been on an upward trend since 2015, reaching €3.7 billion in 2018, versus less than €1.2 billion in 2015, with further strong inflows in 2019 (€4.1 billion).[11] Real estate, merges and acquisitions and new equity, mostly in the services sectors, attracted most of the FDI, and 21 per cent of the total was linked to privatisations.[12]

[7] Eurostat, 2016
[8] EC, 2018
[9] EIBIS 2018.
[10] Eurostat (2018) and EC calculations (2018).
[11] Bank of Greece, 2020.
[12] Bank of Greece, 2020.

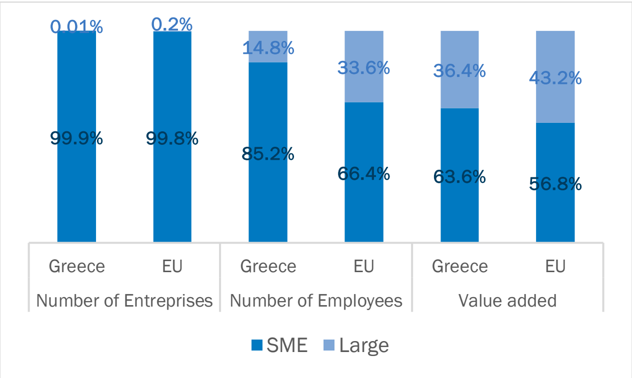
1.3 Overview of the private sector

Underperforming firms and weak labour productivity result from low levels of investment and innovation.

In Greece, 99.9 per cent of companies are small and medium size (SMEs), and the majority of SMEs are micro-enterprises.[13] On average, micro-enterprises contribute more to employment and add more value in Greece than in other European countries. They generate 63.6 per cent of value added and 85.2 per cent of employment, versus the EU average of 56.8 per cent and 66.4 per cent respectively.[14] Micro firms are the backbone of the Greek economy, providing almost 6 out of 10 jobs, compared with the EU average of 3 out of 10 jobs, but micro firms (fewer than ten employees) are 70 per cent less productive in Greece than medium and large firms, according to OECD estimates.[15] Explanatory factors often cited are the limited ambition of small family-owned firms or the ownership of an SME as a secondary activity.

Proportion of size and value added of enterprises

Source: European Commision, 2019.



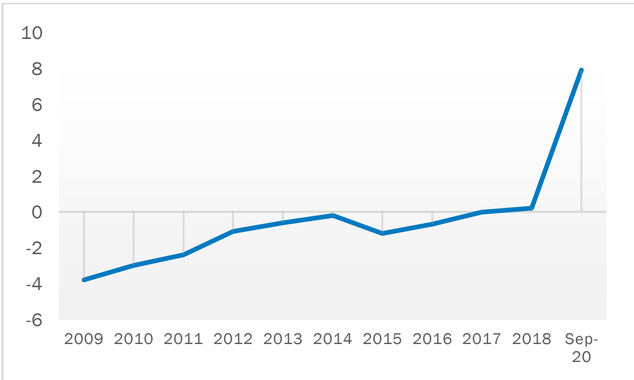
Many firms are under-performing. What are often called "zombie" firms – firms that apparently are unable to repay their debt but continue operating[16] - remain in operation to a large extent, undermining healthy firms by competing on an unfunded basis and increasing the cost of capital for all. Greece is one the of EU countries with the highest rates of zombie firms, along with Spain, the Czech Republic and the Slovak Republic.[17] Research by Piraeus bank shows that around 20 per cent of companies across the sectors of retail trade, the trade and repair of vehicles, the mining and quarrying sectors, and the accommodation and food services sectors, are loss-making and overleveraged.[18]

Similarly, the number of high growth enterprises is limited. This refers to enterprises with an average annualized growth in the number of employees of more than 10 per cent per year over a 3-year period and with at least 10 employees). The most recent data show that 10 per cent of enterprises are high growth, compared to 12 per cent on average in the EU and 16 per cent for the best EU performer (Ireland).[19]

Lack of investment is linked to low levels of productivity and skills. In particular, labour productivity is low, at just 64.4 per cent of the EU average in 2017.[20] The decrease in productivity pre-dates the financial crisis, as real labour productivity per person decreased steadily from 2008 to 2017, before rising again in the following two years.

Annual Labour Productivity Growth (in per cent)

Source: CEIC, 2020.



[13] Financing SMEs and Entrepreneurs (OECD, 2019).
[14] European Commission, 2018.
[15] OECD, 2017.
[16] Fear the Walking Dead? Incidence and Effects of Zombie Firms in Europe Hallak, Issam Harasztosi, Péter Schich, Sebastian 2018.
[17] Idem,
[18] Piraeus Bank, Macro Outlook & Micro Trends, February 2019
[19] IMF, 2019.
[20] European Commission, 2019.

Spending on research and development (R&D) is limited. Investment in R&D has increased in nominal terms from €1.6 billion in 2008 to €2 billion in 2017, but it remains low compared with other countries (1.1 per cent of GDP against the EU average of 2.1 per cent).[21] Similarly, the filing of application patents has sharply decreased from 731 applications in 2011 to 430 in 2018 (0.4 per cent of total filed patents in the EU in 2018).[22]

Tourism was booming before the pandemic but overall exports from the private sector lag behind EU levels.

Tourism figures were holding up well until the coronavirus pandemic struck. The sector has been the mainstay of the Greek economy in recent years, and showed no sign of slowing down in 2019. An analysis of receipts from travel services shows evidence of a significant increase in spending per trip, reflecting a rebalancing towards more tourists from high-income countries relative to previous years.

Cost competitiveness has improved during the crisis. In part, this development reflects the effect of structural reforms in the labour market. The real effective exchange rate also decreased markedly from 2008 to 2017.[23] These changes strongly improved the price competitiveness of Greek companies.[24]

Exports rose in 2018 and 2019. Exports of goods and services excluding the shipping sector have increased by 66 per cent in real terms since their trough in 2009, outperforming euro area export growth as a whole. The share of total exports in GDP increased from 19 per cent in 2009 to 36 per cent in 2018 and market shares increased by 13 per cent since 2015.[25] Despite the increase, Greece remains below the EU average in terms of openness of the economy.

Goods exports are mostly primary products and goods with low value added and a limited innovation component. The value added ratio in revenue production is low. According to research by PwC, revenues dropped by 12 per cent in the period 2009-2016 but value added recorded a decline of 21 per cent in the same period because of the shift away from services and lower investment.[26] Similarly, total exports have increased but the value added component has also declined.

Overall trade flows remain below potential. Greece is amongst the EU countries with the lowest levels of trade integration in goods within the EU (at 11.1 per cent of GDP, compared to 19.6 per cent EU average), and it is also below the EU average in terms of trade integration in services within the EU (6.6 per cent of GDP compared to a 7.4 per cent EU average).[27]

[21] European Commission, 2019.
[22] WIPO, 2020.
[23] European Commission, 2019.
[24] IMF First Post program monitoring Report Staff Report, March 2019.
[25] Bank of Greece, September 2019.
[26] https://www.pwc.com/gr/en/publications/greek-thought-leadership/stars-and-zombies-2019.html.
[27] Single Market Scoreboard, EC, 2017.

2. Key obstacles to private sector development

The coronavirus pandemic has had, and is likely to continue having, a major short-term impact on the Greek economy. The hope is, however, that once the pandemic subsides, economic activity will pick up strongly again, led by the private sector. The size and duration of the recovery will depend on the extent to which private companies and businesses can overcome more long-standing deep-seated obstacles that hinder investment and day-to-day operations. Among the many obstacles facing the private sector in Greece, two stand out: the low standards of governance and the limited supply of credit to corporates. Other prominent obstacles for private businesses include the difficulties in integrating with global value chains, the slow pace of reform in the energy sector and the dominance of the state in key sectors and infrastructure.

2.1 Governance/Competition constraints

Governance: General overview

Notable progress has been made in the area of governance in recent years, despite the well-known long-term institutional weaknesses. As all over the world, the coronavirus outbreak has affected the economic and social reality of the country; however the authorities have taken the necessary measures to largely sustain the reform momentum. To a certain extent the pandemic has worked as a catalyst for advancing the digital agenda.

The Greek economic crisis highlighted the deficiencies of the public sector, but also created a window of opportunity for change. Political polarisation, inefficient bureaucracy and limited administrative capacity were Greece's main socio-political characteristics, which constrained the government's reform capacity in the pre-crisis years. Industry-finance relations have been usually state-mediated, with the state influencing business development. The extensive state regulation, the large 'shadow economy' and the low efficiency of the Greek administration led to a depleted production base, high unemployment due to uninsured employment and low competitiveness. As several studies have shown, there is a strong correlation between high level of self-employment and tax evasion. In this respect, it is no surprise that one of the most important issues that Greece has faced is tax evasion, since the country has one of the highest shares of self-employed workers in the EU.

Formalism has dominated legislation. The state has been operating on the basis of a legal framework which is extensive, complex, fragmented and contradictory. The formalistic administrative culture, conflicting political interests, and weak horizontal coordination within and across ministries, government agencies and state-owned enterprises (SOEs) weaken strategic planning in Greece.[28] In addition, the prevalence of legalism and the large scale of bureaucracy caused by the complex regulatory system has a severe impact on the investment climate. The legal inefficiency leads to large backlogs of civil and administrative cases. A comparison of the reform capacity found in all OECD states, conducted by the Bertelsmann Stiftung before the Greek crisis, had considered the efficacy of state institutions and the wider political system to adapt and deliver reform. Of all the 31 states compared, Greece was ranked at the bottom in 2009, a year prior to the first Econonomic Adjustment Programme on its 'management index'.[29] The external conditionality, that followed the EU/IMF bailout mechanism in 2010, initiated a great number

[28] See more in Bertelsmann Stiftung, Sustainable Governance Indicators, Greece Report 2019 by Dimitri A. Sotiropoulos, Asteris Huliaras, and Roy Karadag

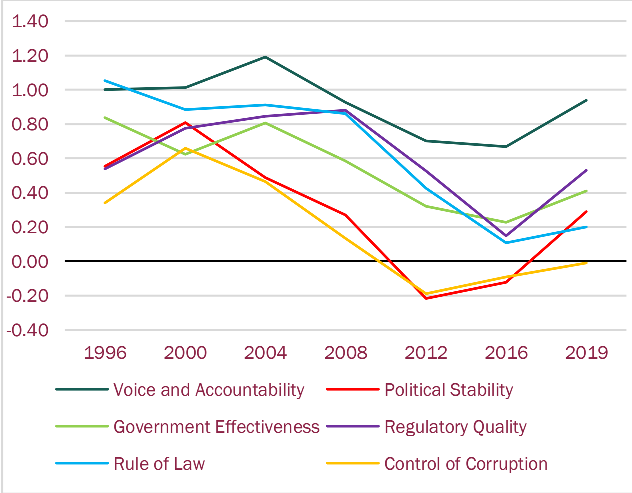
[29] See also, Featherstone, Kevin (2015) External conditionality and the debt crisis: the 'Troika'and public administration reform in Greece. Journal of European Public Policy, 22 (3). pp. 295-314.

of fiscal and structural reforms for the country's debt sustainability, within a polarised political environment. Most of these reforms addressed the inefficient public administration and tax collection system, the over-regulated labour market and the unsustainable pension system. Despite efforts[30], Greece still has one of the lowest competitiveness rates among the EU member states according to the Global Competitiveness Index of the World Economic Forum (WEF).

According to the WEF Global Competitiveness Index (GCI) 2019, Greece ranks 85th among 141 economies with respect of the quality of institutions. Taking a closer look at the individual indicators, the most worrisome issues can be found in the efficiency of the legal framework in settling disputes (131st out of 141 economies), the quality of land administration (138th), and the burden of government regulation (127th). According to the GCI reports, the most problematic factors for doing business are tax rates and tax regulations, inefficient government bureaucracy, and policy instability.

According to the Worldwide Governance Indicators (WGI) of the World Bank, Greece's scores are below the EU average in all six categories (voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption) since 1996, with a gradual decline in almost all indicators since the early 2000s, but an encouraging improvement in recent years (see the chart below). In particular, Greece had been scoring below zero in political stability and control of corruption since the beginning of its crisis, while it still scores very low in the corruption variable in the latest dataset, being among the lowest EU member states. In the same dataset of 2019, despite progress, Greece was still at the bottom of the EU in the regulatory quality and government effectiveness.

WGI, Greece 1996 – 2019



Source: World Bank, Worldwide Governance Indicators.[31]

The heavy market regulation is also evident in the World Bank's Ease of Doing Business in 2020 with Greece ranking 79th globally – the second lowest position in the EU. Trust in government (as an institution) has deteriorated in recent years and remains below pre-crisis levels. The OECD Government at a Glance report for 2019 has also shown the shortcomings in providing services to the Greek citizens in areas such as health, justice and education.[32]

Public administration

The efficiency of the public administration has always been a challenge. The state administration belongs to the wider Napoleonic tradition together with other Southern European counterparts. The predominace of law over management in defining the main tasks of the administration, a career civil service and bureaucratic centralisation are some of its characteristics. The heavy dependence on political leadership (ministers, deputy ministers, general and special secretaries, revocable employees) allows for limited space for autonomy. Public administration in Greece has been rigid, low-tech and hierarchical, with even insignificant items requiring the minister's approval and signature. The absence of key performance indicators (KPIs) makes the performance of the administration unmeasurable. While objective measures of how efficiently the

[30] Reform intensity in Greece is higher than the OECD average in recent years.
[31] *Scores range from -2.5 (weak) to 2.5 (strong)*
[32] OECD, Government at a Glance report, 2019.

Greek state transforms its inputs into outputs are lacking, international comparisons of citizens' satisfaction with key state services show that resources are rarely used to their full potential.[33]

The public administration was substantially downsized during the first years of the Greek crisis. A major objective of all three Economic Adjustment Programmes (2010 – 2018) was to tighten up public financial management, enhance policy coordination and strengthen the institutional capability for policy formulation and implementation. What had not been achieved under the soft Europeanisation process had to be accelerated under urgent circumstances.[34] Between 2009 and 2016, Greece reduced the size of its public sector by 26 per cent and its wage bill by 39 per cent bringing the size of Greece's public administration in terms of GDP into line with the euro area average. Greece's wage bill went down to 8.3 per cent in comparison with the euro area average of 7.9 per cent in 2016.[35] Yet while the public sector was large at the beginning of the crisis, the Greek state now falls almost exactly at the mean of OECD countries.[36] Thetotal of public sector staff by the end of 2020 has decreased by 23.9% compared to 2009 according to recent EC estimations. As a result, most recent reform efforts, under the last MoU but also under the Enhanced Surveillance Framework, have focused on increasing the efficiency of the public administration.

A series of complementary actions, required for the modernisation of the public administration, have been completed. Good progress has been made in developing a Human Resources Management System, including completion of a significant number of digital organigrams and job descriptions. According to the European Commission, the evolution of personnel in 2020, both permanent and temporary, remained in accordance with hiring plans. Further progress has been made towards the depoliticisation and professionalization of the public administration. In addition, an important initiative to strengthen the capacity of the independent authority in charge of the selection of public officials has reached a final adoption stage.[37] According to the OECD, administrative processes have been simplified in some areas, such as insolvency procedures, business creation and licensing, while reforms of personnel management are progressing. Further recommendations include the simplification of regulatory assessments, the creation of a network of civil servants with regulatory quality expertise, and the completion of the land registry.

Improvements in digital skills and adoption of new technologies by businesses remain key priorities. To bolster this reform momentum after the recent coronavirus outbreak, the Greek authorities have undertaken a number of complementary measures in several areas, including digital governace. These efforts will be conducive to the better functioning of the public administration and business environment. The launch of a number of digital tools during the containment period allowed key services for citizens and business to remain largely uninterrupted. A number of interventions were implemented as a priority to ensure business continuity within the public administration. In addition, a report by the Hellenic Foundation of Enterprises (SEV) shows that the vast majority of Greek companies have introduced some sort of telework schemes, supported by relevant government provisions, with the overall experience deemed as positive by the employees.[38]

---

[33] See M. Jacobides, chapter 14 in Beyond Austerity: Reforming the Greek Economy, edited by Costas Meghir, Christopher Pissarides, Dimitri Vayanos, and Nikolaos Vettas, MIT Press, 2017

[34] See C. Spanou, chapter 11 in the Oxford Handbook of Modern Greek Politics, edited by Kevin Featherstone and Dimitri A. Sotiropoulos, OUP, 2020

[35] European Commission, Structural Reforms in Greece, Pillar IV: The Functioning of Greece's Public Sector & Commission Staff Working Document, Country Report Greece 2019, European Semester, published on 27 February 2019

[36] See M. Jacobides, chapter 14 in Beyond Austerity: Reforming the Greek Economy, edited by Costas Meghir, Christopher Pissarides, Dimitri Vayanos, and Nikolaos Vettas, MIT press, 2017

[37] European Commission, Enhanced Surveillance Report, Greece, November 2020

[38] The Hellenic Foundation of Enterprises (SEV), Telework in Greece during the Covid-19 pandemic: A preliminary review of evidence, June 2020

Over the last years, Greece has carried out significant reforms in the area of public procurement. These included simplified legislation, use of electronic procurement, a new centralised procurement scheme and the adoption of the National Strategy on public procurement. Since 2016, Law 4412/2016 has transposed the EU Directives on public procurement aiming to codify the existing national provisions on public procurement scattered in various legal texts. Under EU and domestic legislation, while authorities can choose to run open tenders in which any undertaking may submit an offer, they may also have the flexibility to use procedures with more limited participation, if certain requirements are met. Electronic systems are used both to run tender procedures and as document repositories. The electronic systems are developed and maintained by the Secretariat General of Commerce and Consumer Protection of the Ministry of Economy, and specifically by the Directorate General of Public Procurement.[39] According to the European Semester reports for Greece, further improvements in administrative capacity and the full implementation of the new centralised procurement scheme is needed to achieve economies of scale and rationalise public expenditure. The European Commission suggests that in the short term, priority needs to be given to measures such as streamlining electronic procurement facilities, systematically checking on excessively low bids, professionalising procurement staff and promoting central purchasing.

The Greek authorities have commited to adopt a new public procurement strategy for the period 2021-2025. A well-functioning public procurement system will rationalise public spending, boost growth and guarantee a competitive business environment in view of the post-Covid-19 recovery. It will also support the green transition and anti-corruption framework.

Taxation

The frequency of changes in the tax legislation and the unpredictable level of tax rates have created an unfriendly business environment. According to the Enterprise Surveys (ES) of the EBRD, EIB and World Bank, the level of tax rates is the biggest obstacle faced by the firms operating in Greece *(see graph below).* Tax administration is also reported as a serious obstacle for businesses. Regarding the redistributive effects of taxes, Greece is close to the OECD average. The mix of the Third Economic Adjustment Programme included tax increases and privatisations. This translated into unpopular measures like ending fuel tax benefits for farmers and ending VAT discounts on Greek islands.

In previous years, the Greek tax system had been hampered by complex legislation, poor administration, and inefficient tax collection. Despite significant efforts, the Greek tax system still remains bureaucratic by EU standards. Greece has introduced several tax rises over the years, in order to bring its public finances under control. Reforms implemented under the three economic adjustment programmes covered the collection of taxes, custom duties and social security contributions, while aiming to increase the transparency, accountability and efficiency of the system.

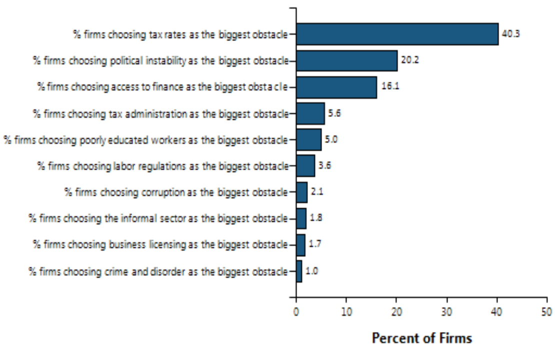
Despite positive developments both in terms of reinforcing the institutional set-up and in providing new collection tools and resources, more efforts are required. The OECD has recently recommended that the quality of public spending needs to further increase along with the fairness and efficiency of the tax system.[40] The development of an integrated IT system in the Independent Authority of Public Revenue (IAPR), which was established in 2017, and the adoption of an IAPR Action Plan for 2019-2021 were two of the main recommendations in the 2019 European Semester Report for Greece. In addition, measures to increase electronic

[39] OECD peer reviews of competition law and policy: Greece 2018
[40] OECD Econonomic Surveys, Greece, July 2020

payments and timely submission of tax returns will facilitate the fight against tax evasion.

Due to the coronavirus outbreak, the Greek authorities were unable to finalise the ongoing nationwide property tax valuation exercise in time for the 2020 tax assessment cycle. This will postpone the implementation of the wider property tax reform to 2021. At the same time, the IAPR has been at the centre of the authorities' efforts to combat the economic impact of the coronavirus pandemic.[41]

Ranking of the Top Business Environment Obstacle for Firms, 2018[42]



In relation to other OECD countries, Greece receives lower tax revenues from direct taxation. Tax revenue is mostly derived from indirect taxation, such as the use of oil products (gas, heating) and VAT. The imposition of capital controls in 2015, might on the one hand have negatively affected the business environment of the country, but on the other, led to an increase in the use of credit cards and thus in tax collection. A very serious problem is tax arrears. In addition, the tax on landed property (ENFIA) had negatively affected the real estate market; nevertheless, it remained important for the state budget.[43]

Rule of law

Although independent, the Greek judiciary has been slow and inefficient. The European Commission's Rule of Law Report (2020) notes that the justice system continues to face challenges as regards its overall efficiency. The formalism and rigidity of the system combined with an extensive, complex, and sometimes contradictory framework has led to low public trust despite recent efforts. Judicial independence is guaranteed by the Greek Constitution and members of the judiciary are promoted through the internal hierarchy of the judiciary. The only exceptions are the appointment of heads of the highest civil law and criminal law court and administrative court. The court system has been based on the separation among the administrative courts, the ordinary civil and criminal courts, and the military courts. The absence of a Constitutional court enables every court to review the constitutionality of laws.

A series of reforms, which aim to make the system more efficient, faster and technologically more up-to-date, were introduced recently. Even though the first adjustment programmes gave little attention to the rule of law and the judiciary, several measures were taken in recent years. Those include the reform of the Code of Civil Procedure, measures to digitalise the justice system (e.g. electronic filing of documents, and introduction of video conferences), and the development of alternative means for dispute resolution, in particular mediation. Mandatory mediation is fully in force as of July 2020. Abolishing formalism and investing more in IT should remain priorities of the Greek state in the forthcoming years. In 2019, Council of Europe – Group of States against Corruption (GRECO) found a number of shortcomings in the country's justice system. Greece was urged to comply more with international standards against money laundering and the fight against the financing

[41] European Commission, Enhanced Surveillance Report, Greece, May 2020
[42] After being presented with a list of 15 business environment obstacles, business owners and top managers in 600 firms were asked to choose the biggest obstacle to their business. See Enterprise Surveys Indicators data.
[43] See more in Bertelsmann Stiftung, Sustainable Governance Indicators, Greece report 2018, by Dimitri A. Sotiropoulos, Asteris Huliaras, and Roy Karadag

of terrorism, which in turn would impact the fight against corruption.[44]

According to the Corruption Perceptions Index (CPI) 2019 by Transparency International, Greece is at the 60th place out of 180 countries and territories globally and below most EU member states. However, it is one of the best improvers of CPI since 2012. In the 2020 Eurobarometer survey on corruption, 95 per cent of the respondents think that corruption is widespread in the country, when the EU average stands at 71 per cent. According to the SGI 2018 Greece report, the justice system has focused more on punishing corruption, rather than preventing it. Political polarisation and instability have overshadowed anti-corruption measures in Greece. The General Secretariat for Anti-Corruption (GSAC) has continued its efforts to combat corruption, according to Council of Europe's GRECO, and OECD recommendations. In addition, the National Transparency Authority (NTA), established in August 2019, is now fully operational. The NTA merged six previously separate audit bodies under its umbrella strengthening the cooperation between different units. The Authority is expected to improve coordination and oversee the implementation of the National Anticorruption Plan.

2.2 Banking and Financial constraints

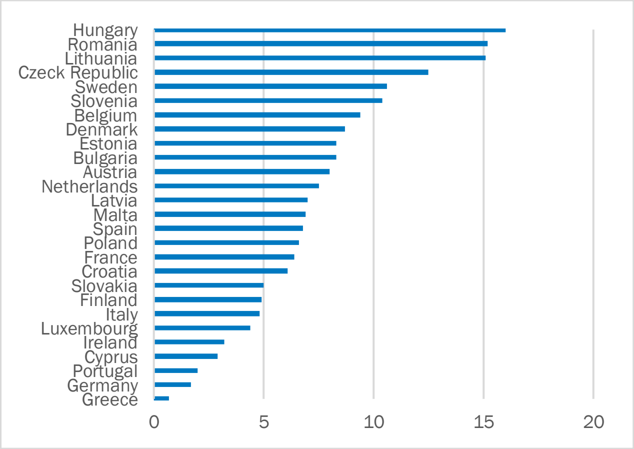
The domestic banking sector is making a slow recovery from the 2009 crisis, but non-performing exposures remain excessive.

The Greek sovereign crisis adversely affected the banking sector. In 2013 and early 2014, as part of the second financial assistance programme, the banking sector was recapitalised and received loans and emergency liquidity assistance (ELA) from the European Central Bank and the Bank of Greece. In 2015, the sector was hit again by political turbulence and a confidence crisis, resulting by mid-2015 in large withdrawals of deposits, the temporary (three-week) closure of banks and the introduction of capital controls. The sector was recapitalised again in late-2015 (including support from the EBRD). Banking sector assets decreased from 2.3 per cent of GDP in 2013 to 1.6 per cent of GDP in 2018, and the profitability of the sector was negative from 2013 to 2018.[45]

There are signs of recovery in the banking sector. In 2018, private sector deposits increased by 6.3 per cent year-on-year to €134.5 billion in December 2018, as depositors' confidence improved and external capital inflows accelerated. The CET1 ratio of the systemically important banks averaged 15.8 per cent during 2018, placing Greek banks among those adequately capitalized within the EU according to the European Banking Authority (EBA). Emergency Liquidity Assistance (ELA)[46] from the central bank, which at one point (in 2015) had reached around €90 billion, was fully repaid in April 2019.

Return on equity (2019, per cent per country)

Source: European Banking Federation.



[44] Council of Europe, Group of States against Corruption, Ad hoc Report on Greece, 18 December 2019.
[45] Moody's, 2019.

[46] ELA aims to provide central bank money to solvent financial institutions that are facing temporary liquidity problems, outside of normal Eurosystem monetary policy operations.

The crisis strongly modified the structure and activities of the Greek financial sector.

The banking sector is now highly concentrated. The number of domestic credit institutions has significantly decreased since 2009 from 35 to 15, out of which eight are commercial banks and seven are cooperative banks. Four banks – National Bank of Greece (NBG), Piraeus Bank, Alpha Bank, and Eurobank– dominate the sector with a combined market share of 97 per cent of assets at end-2019.[47]

Profitability in the banking sector remains low. Revenue generation from new business is subdued due to scarce lending opportunities and a relatively high cost of funding. Write-offs of non-performing exposures (NPEs) weigh on net interest margins, which are only partly compensated by non-interest income as the economy recovers. Provisioning remains significant (47 per cent in 2018), adversely affecting profitability. Improved funding costs (mainly time deposit repricing and ELA reduction) have been supporting profitability so far.

The banking sector is almost entirely domestically owned. Foreign banks have an insignificant market share, as all but one of the foreign banks with retail customer service networks have divested from Greece in recent years. Currently, 20 foreign banks operate in Greece with local branches. In total, the number of bank branches (1,979) has decreased by 51 per cent from 2010 to 2018 and similarly, the number of employees (39,382) and ATMs (5,594) dropped by 38 per cent and 35 per cent, respectively. The regional presence of Greek banks in south-eastern Europe has also declined: domestic banks have been divesting subsidiaries in SEE in recent years in order to shore up operations at home.

Private sector lending collapsed during the crisis and is proving slow to recover

Private sector credit, annual growth

Source: Piraeus Bank.

Following years of pronounced contraction, bank lending remains subdued. Since 2016, the annual growth rate of loans extended to non-financial corporations is around zero. The decrease of loans to households has decelerated since July 2016. New credit to the private sector is supported by the ongoing recovery in economic activity and the reduction of lending rates. On average, in January-July 2018 new gross loans to households remained broadly stable (compared to the previous year) and the volume of loans to non-financial corporations increased. In 2018, for the first time in many years banks reported some easing in credit standards for all types of new loans. Bank lending to corporates was rising throughout 2019, but lending to households remained on a downward path.

Lending rates to non-financial corporations are falling and consumer loans are increasing. The gradual decline in lending rates to non-financial corporations continued during 2018, driven by lower credit risk and the favourable effect of the financing instruments available to SMEs (e.g., by the Hellenic Fund for Entrepreneurship and Development, the EBRD and the EIB).[48] By contrast, lending rates to households have been following an upward trend for the past

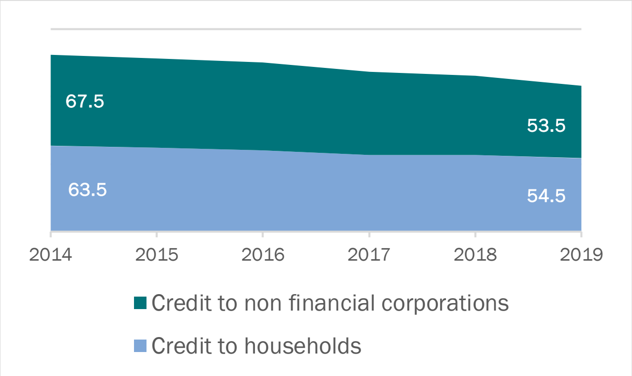
[47] ECB database, 2019.

[48] Country Report Greece, European Commission, February 2019.

four years, mainly reflecting credit risk developments, as the NPE ratio for consumer loans is particularly high and the NPE ratio for mortgage loans has been deteriorating recently relative to other loan categories.

Credit to the private sector as a per cent of GDP

Source: BIS.



The private sector is heavily affected by the lack of credit. The regular European Investment Bank (EIB) investment survey shows that, in 2018, mentions of access to finance as a barrier to investment declined but remain significantly higher than the EU average, especially for Small and Medium size Enterprises (SMEs) and firms operating in the construction and infrastructure sectors. On average, 17 per cent of SMEs mention access to finance as their most important problem, well above euro area averages. The demand for external financing in Greece continued to be the strongest in the euro area.[49]

Greek capital markets have started operating again but are still recovering from the years of deep recession. Capital markets are reopening with successful government bonds issues and 10 Tier II debt issuances by Piraeus and NBG. In 2019, €4 billion was successfully issued with an average 6-years maturity. Yet, trade in bank securities remains predominant, so there are limited funding alternatives for non-financial corporations (with the exception of some large corporations). The combination of still high perceived risk and a small domestic investor base makes it difficult for non-financial corporations to raise capital on bond markets.[50]

Resolving non-performing loans remains a key challenge.

Non-performing loans in Greece are way above EU levels. The level of non-performing exposures (NPEs) stood at 35.3 percent of total loans as of September 2020.[51] This is far beyond all other EU member countries, where the NPE ratio is typically in single-digit levels (and 4 per cent on average).[52] The NPE problem is preventing banks from fulfilling their intermediation role and supplying much-needed funding to the real economy, a fact well recognised by the central bank (see remarks of central bank Governor Yannis Stournaras in the box on the right).

The authorities are making significant efforts to tackle NPEs.[53] Supervisory measures taken in recent years include the adoption and application of a code of conduct created by the Bank of Greece as well as the creation of an active NPE servicing and sales market. Regulatory reforms have focused on revising the Household Insolvency law and the corporate insolvency law, as well as a reform of the Civil Procedure Code that allowed for the creation of an electronic auctions system to liquidate assets following executive enforcement. In particular, a new insolvency framework is being prepared. In late October 2020, parliament passed the relevant legislation. The new code is based on best international practice in terms of simplifying requirements for effective restructuring, thus helping to preserve viable businesses. Scheduled to enter into force in January 2021, it introduces a unified code for bankruptcy and the restructuring of individual and corporate debt. The judiciary has also been instrumental in NPE reduction, with the creation of an out-of-court workout mechanism. Yet, severe delays in the judiciary, and in particular considerable backlogs in NPE-related cases, are yet to be addressed by the authorities.

[49] Survey on the Access to Finance of Enterprises in the euro area (ECB, June 2018).

[50] Country Report Greece, European Commission, February 2019

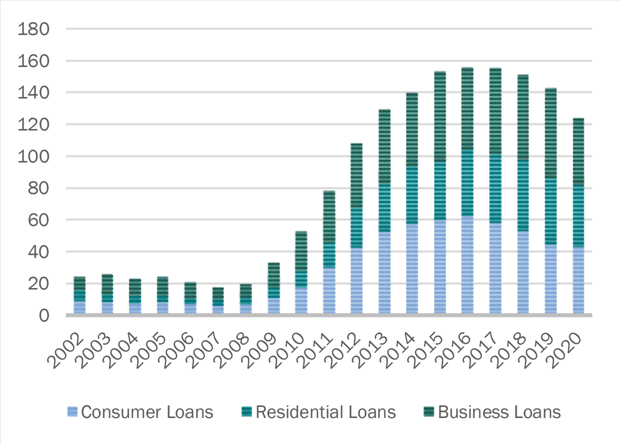
[51] Non-performing exposures include loans more than 90 days past due and loans whose debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past due amount or of the number of days past due. It is thus a broader measure than non-performing loans (NPLs), which are loans more than 90 days due only.

[52] Eurostat, 2020

[53] Country Report Greece, European Commission, February 2019.

Non performing exposures as a per cent of total loans

Source: Bank of Greece.



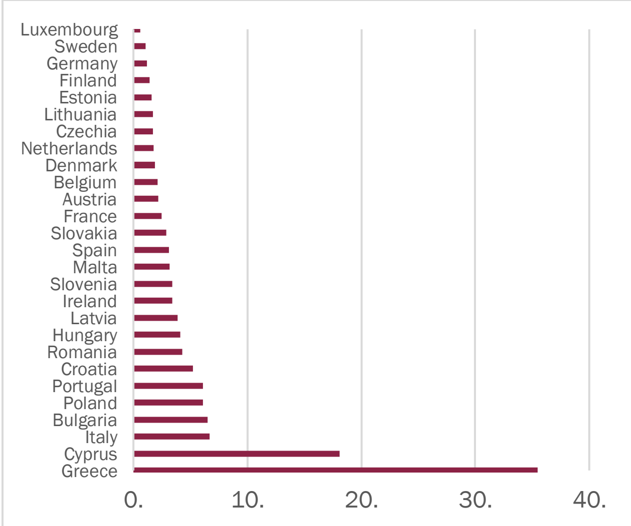
"Freeing the banks of the NPL burden would help reduce the financial risks and funding costs faced by banks, thereby improving their internal capital generation capacity on a sustainable basis and enabling them to resume their intermediation role. In addition, alleviating the NPL burden would strengthen banks' resilience and shock-absorbing capacity against potential future shocks; support operating profitability and put the conditions in place for a gradual increase in loan supply and a decrease in lending rates to enterprises and households, thereby enabling the smooth financing of the real economy".[54]

Yannis Stounaras, Governor of the Bank of Greece (April 2019)

Ambitious targets for NPE reduction were introduced. At the end of March 2019, Greek banks submitted to the ECB and the Bank of Greece their revised operational targets for NPE reduction. These targets are more ambitious than the previous ones submitted in September 2018, as banks aim to reduce the NPE ratio to slightly below 20 per cent (compared to a 21.1 per cent target in September 2018). This would still leave NPEs well above the EU average, implying the need for further intensive efforts in the following years.

Gross Non performing loan as a percent of gross loans (2019)

Source: Eurostat.



It remains to be seen whether the schemes currently in place and upcoming will help accelerate the pace of NPE reduction. The four systemic banks are addressing the problem using a variety of tools and according to targets agreed with the Bank of Greece but non-performing exposure reduction should accelerate as targets of reduction increase and the implementation of new schemes for NPE reduction advance further. A new scheme (the Hercules scheme – see box on the right), approved by both the European Commission and the Greek parliament, started operating in early 2020. The scheme is voluntary and managed exclusively by private investors. If successful, it is expected to reduce by €30 billion total NPE exposures among Greek banks.

[54] Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at the 86th Annual Meeting of Shareholders, Athens, 1 April 2019.

The Hercules scheme

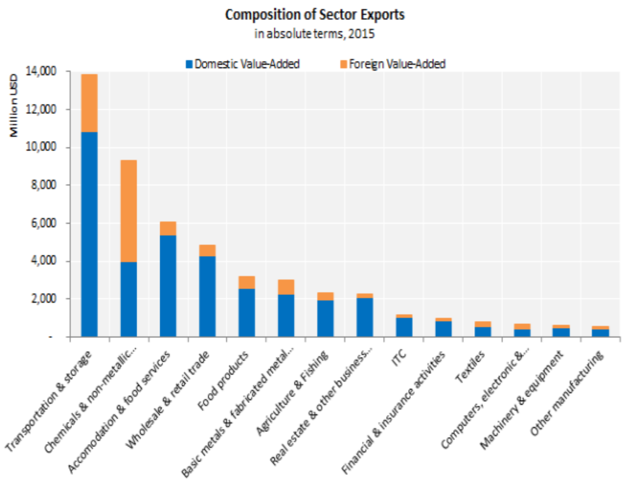
The Hercules scheme started operating in 2020. Originally a proposal of the HFSF, is based on the Italian GACS scheme on NPL reduction, introduced in 2016. The scheme is a state guarantee that protects buyers of the safest (or most senior) tranche in the securitization. The guarantee is be available only after senior tranches get a certain rating by rating agencies (BB minimum), and at least 50 per cent of the junior tranche is sold to private investors. Each participating bank selecte, relatively homogeneous portfolios of NPLs to the SPV, which then issue the asset-backed security notes. These guarantee certificates can be considered as a sort of credit enhancement with the advantages of not adding any capital pressure upon the involved banks, whereby they do not mix complicated tax, legal and regulatory issues.

The pandemic has put additional strains on the banking system, and new NPLs are likely to arise in the short term. In April 2020, most of the four systemic banks had put on hold their NPL reduction strategies and only plan to resume the NPL reduction in 2021. The ECB has said that it will give full flexibility for the implementation of NPL reduction strategies given the Covid-19 context. While schemes to reduce NPLs are now in place and implementation will need to be stepped up once the economic recovery is well under way.

2.3 Limited integration into Global Value Chains (GvCs) and the regional market

Greece's degree of openness is quite limited by EU standards.

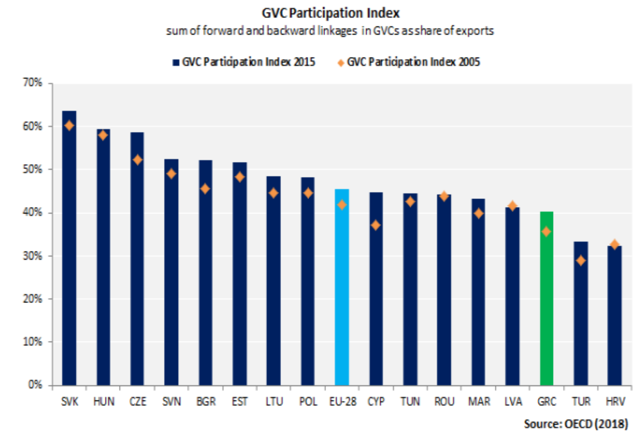
Despite increased competitiveness, export volumes remain significantly below potential. Greece exported products worth USD $80.7 billion in 2018, which makes the country the 45th top exporter in the World. The top exports of Greece where Transport (26.43 per cent), travel and tourism (25.39 per cent) and refined petroleum and oils (13.84 per cent). The top destinations for Greece where Italy (9. 32 per cent), Germany (6.49 per cent) and Turkey (6.15 per cent)[55].



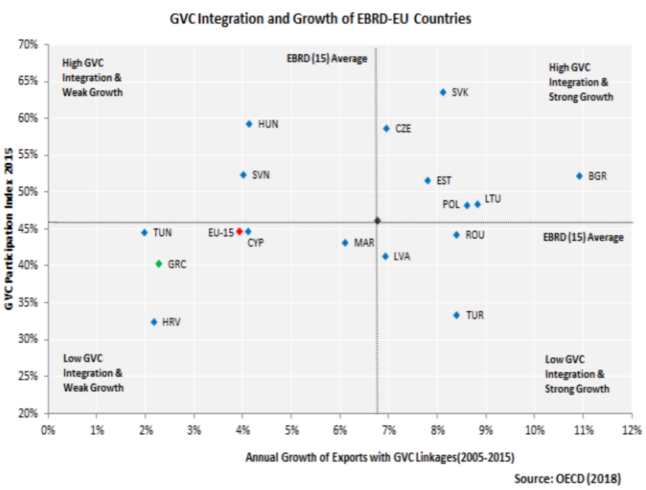
Source: OECD (2018)

Export orientation is low. Only 22 per cent of the Greek economy's value added was produced for foreign demand in 2016. This share is the second lowest in the EU-28, despite an increase from 16 per cent in 2005. In a more nuanced sectoral perspective, the manufacturing and agriculture industries show a higher export-orientation share, with 42 per cent and 34 per cent of the industries' output being exported, whereas only 19 per cent of the services sector's value-added was produced for foreign demand in 2016.

[55] Harvard Atlas of Economic Complexity



Around 40 per cent of Greece's exports were integrated into value chains in 2015. The share increased slightly from 36 per cent in 2005. The GVC participation index value of Greece is below the EU-28 average and non-EU member states Tunisia and Morocco, but higher than Turkey. Even though Greece increased its participation in GVCs, the growth rate of exports with GVC linkages was quite modest and only 2.3 per cent per year on average.



Going up the value chain: trade and competitiveness of Greek olive oil

Greece is the third largest producer worldwide produces around 300k tons of olive oil per year, accounting for 10 per cent of global production after Spain (40 per cent) and Italy (14 per cent).

However, a very large part of this production is sold in bulk: only 27 per cent of Greek production reaches the stage of labelled/branding, compared with 50 per cent in Spain and 80 per cent in Italy[56].

The low amount of production of final olive oil products is strongly linked with the current land fragmentation of oil producers and the lack of professional producers. Indeed, only a small percentage of farmers that grow olive trees as their main profession and oil producers often own very small parcels of land.

In order to move up the value chain (i.e. export olive oil that is labelled/branded), Greece could:

Reinforce the vertical integration of production for larger farms (or more efficient cooperatives) to operate at lower cost and mount marketing and export strategies.

Better organise the value chain (including the stages of processing, branding and distribution) to increase the distribution of branded products of standardized high quality.[57]

[56] National Bank of Greece, 2015.

[57] National Bank of Greece, 2015.

Greece has the potential to be a leader in regional integration, provided obstacles can be overcome.

Greece is well placed to play a leading role in the investment and trade linkages in south-eastern Europe. It occupies a strategic location near the crossroads of Europe, Asia and Africa. It also shares a land border with Albania, North Macedonia, Bulgaria and Turkey, and is widely regarded as a gateway to Europe from countries further east and south. For example, it has in recent years attracted significant investment from China as part of that country's "Belt and Road initiative: In 2016, China's shipping firm Cosco purchased a majority stake in Piraeus port. China has made other important recent investments in Greece, particularly in the energy and real estate sectors.

By developing links with neighbours, Greece would be promoting integration with a region of high potential and strong economic performance in recent years. Neighbouring countries in SEE have generally had robust growth in recent years prior to the Covid-19 pandemic. Bulgaria, for example, was growing by more than 3 per cent for several years. Further north, the Romanian economy had been one of the fastest growing in the EU in recent years, with GDP growth reaching 7.1 per cent in 2017, 4 per cent in 2018 and 4 per cent in 2019.

Developing this potential requires improved infrastructure.

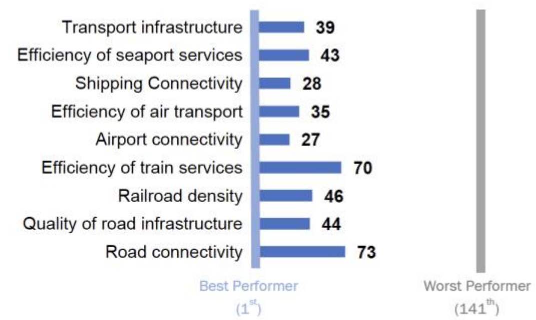
Greece faces many challenges regarding infrastructure. Total public and private investment in infrastructure is below the median in OECD countries. Moreover, the quality of transport infrastructure could be improved: Greece ranks 25th in the EU in infrastructure investment and it is below the EU average in all the sub rankings.[58] The gap is particularly important for railroads and, albeit to a lesser extent, road infrastructure. According to a PwC report of 2018, there is an infrastructure investment gap of around 0.7 percentage points of GDP (against the European average), translating into an average spending shortage of €1.4 billion per year.[59] Infrastructure projects in Greece also suffer from systematic slippage both in preparation and execution, with an average 23 months of slippage in preparation/design and 28 months of slippage in execution/construction.[60] In order to improve its infrastructure, the government will thus have to improve the governance of infrastructure projects.

Various cross-border road and railway projects are under way or under consideration. These include the development of corridor X (road and rail) from Thessaloniki through Skopje, Belgrade, Zagreb and Budapest, the Pan-European corridor IX from Alexandroupolis through Bulgaria, Romania, the Black Sea and Russia, and the Adriatic-Ionian corridor through the Western Balkans to the port of Bar in Montenegro.

Alongside these infrastructure improvements, the Greek government's commitment to reducing trade delays is also important. Currently the time and cost to export from Greece in terms of border compliance are approximately double the level in OECD high-income countries, according to the World Bank's *Doing Business 2020* report.[61] For their part, countries in the Western Balkans have made major progress over the years in reducing trade barriers, within the context both of their regional free trade agreement and of their aspirations for eventual EU membership. Further advances in this area would be beneficial for all sides.

Infrastructure Index for Greece

Source: Global competitiveness report, 2019.



[58] https://ec.europa.eu/transport/facts-fundings/scoreboard/countries/greece/investments-infrastructure_en.

[59] https://www.pwc.com/gr/en/publications/greek-thought-leadership/infrastructure-in-greece/infrastructure_2018_en.pdf.

[60] https://www.pwc.com/gr/en/publications/greek-thought-leadership/infrastructure-in-greece/infrastructure_2018_en.pdf.

[61] https://www.doingbusiness.org/en/data/exploreeconomies/greece#DB_tab.

Exploiting Greece's competitive advantage: the shipping industry and the Piraeus Port

Greece has a strong comparative advantage in maritime transport sector, as it is well placed to become the transit centre for the Balkans and a point of entry in Europe for Asian products. Indeed, the global container traffic in Greece has been multiplied by seven between 1990 and 2011[62].

Given the availability of modern and integrated port services in the north shore of the Mediterranean Sea (with advanced ports such as Marseille or Barcelona), developing the comparative advantage requires very efficient ports services as well as a highly developed transport infrastructure. The development of port activity not only depends on new investments in ports but also on a better quality of road and rail infrastructure for an efficient multimodal transportation.

Over the last decade, the port of Piraeus has undergone significant reform changes. In 2009, Piraeus Port Authority S.A. privatised the right to operate the Pier II container terminal of the port to Piraeus Container Terminal (PCT) S.A., a subsidiary Piraeus Container Terminal (PCT) S.A., a subsidiary company of COSCO Pacific. In 2016, the Greek State sold the majority of the shares of Piraeus Port Authority S.A. to a private company, the China COSCO Shipping Corporation Limited.

Those changes have contributed to an impressive market growth: Piraeus port has gained 49 positions in the world ranking of the biggest container ports in terms of number of TEUs handled, reaching in 2015 a position among the 50 biggest container ports (44th) and emerging as the fourth biggest Mediterranean port – after Valencia, Algeciras and Port Said. While the shipping cluster has grown around the port of Piraeus, the economic activity around the port has also been developing across Greece and in particular in various locations of the prefecture of Attica: shipping companies operate their headquarters from locations approximately 20 kilometres away from the port of Piraeus. The Piraeus shipping cluster counts a total of 3.273 enterprises that operate in the shipping-related business sectors and operate across distinctive geographical areas of the Athens and Piraeus region. The most dominant cluster group, with the participation of 974 companies, are "Ship-managers and Operators". Another highly populated group of activities (i.e. many firms are active), is that of "Spare Parts & Marine Equipment" that counts approximately 600 active firms.

The major reform efforts in the ports of Piraeus have resulted in a major economic success, Greece remains above the EU average in terms of efficiency of seaport services as well as other transportation services (see figure below). The pace of reform implementation as well as infrastructure investment needs to thus be increased in order to keep and increase the comparative advantage in the shipping sector.

[62] National Bank of Greece, 2013

2.4 Energy sector: facing major challenges and opportunities

Greece has significant potential to be a regional energy hub but must first address problems in the state-owned company PPC and move swiftly to eliminate lignite production.

Greece's location at the heart of south-eastern Europe could make it an important regional energy player. Several important regional energy projects are under way or being considered, including the Trans Adriatic Pipeline, the gas interconnector pipeline between Greece and Bulgaria, and a planned LNG floating terminal in Alexandroupolis. These energy projects are not only important for the countries themselves but also for the wider central and south-eastern European region in terms of diversifying energy sources and routes.

The power company, PPC, needs to be restructured and commercialised. PPC has been loss-making for years and is a significant drain on the state's coffers. The government and new management of PPC have put in place a reform plan that includes tariff hikes of 16.4-19.4 per cent, as part of a series of measures to raise €800 million over the next twelve months. The plan would also cut the RES supporting green levy collected by PPC from customers by 25 per cent, which will partly counteract tariff hikes in the final electricity bills.

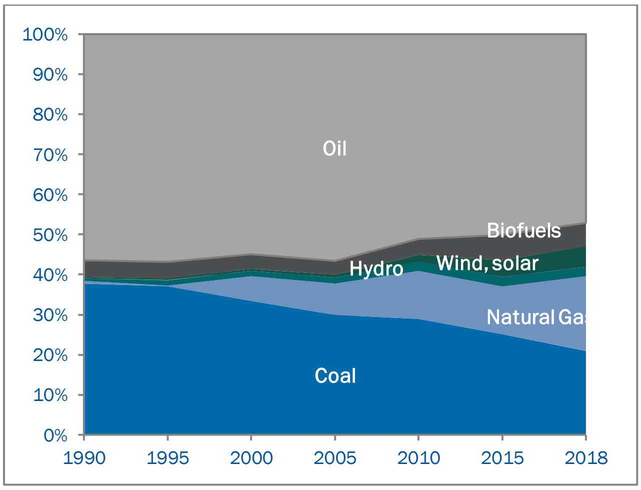
Parts of PPC may be sold off. The Government and PPC are considering privatisation plans for PPC's fully owned distribution system operator HEDNO, together with the distribution network currently owned by PPC.

As part of its restructuring, PPC needs to move towards renewable sources of energy. The decarbonisation of PPC would help Greece achieve its commitments, as part of the EU, on renewable energy targets. However, the company needs assistance in developing a climate action plan that is reflective of international standards, as it currently lacks the necessary capacity and expertise.

Achieving renewable targets will be essential for replacing coal capacity, which will be phased out by 2023. The government has adopted a national renewable energy target of 61 per cent. Coal is declining as a share of energy supply but full elimination will be a political and social challenge, as coal production is concentrated in certain parts of the country, such as western Macedonia. A clear plan will be needed to retrain workers and generate new opportunities to replace the jobs lost by closing down coal plants.

Energy supply

Source : IEA, 2019.



2.5 Privatisation and PPPs

Progress on privatisation and public-private partnerships has been uneven during the crisis, but a new momentum is gathering pace

The state has traditionally had a significant presence in the Greek economy. Successive governments of all hues had, over many decades, ensured that state-owned enterprises (SOEs) would play a large role in the functioning of the Greek economy. As in many other countries, SOEs in Greece became a major source of patronage and clientilism. Their losses and inefficiencies were disguised by a combination of a growing economy and weak accountability. At the same time, some privatisations did take place prior to and during the first part of the crisis – about

€31 billion was raised from privatisations between January 1991 and June 2011.[63]

The advent of the crisis led to a new focus on privatisation as a source of revenue. Once the full extent of the crisis became evident in 2010, the government of the day, in discussion with international creditors, began to look at the possibility of a major programme of asset sales in order to shore up government revenues and ensure debt sustainability. At one point, a target figure of €50 billion in revenues from sales over a few years was envisaged. The outcome, however, fell way short of this amount; just €3.1 billion was received between June 2011 and December 2014.

During the first and second bailout programmes, privatisation was dogged with difficulties. The ambitious target mentioned above failed to take into account both the difficulties of selling assets during a deep crisis and the specifics of the Greek situation. The challenges in attracting investors to state sales were numerous, and included the following:[64] a high degree of regulatory and legal complexity; high levels of rent-seeking and corruption; an imperfect land registry and environmental concerns; the difficulty of regulating natural monopolies; and the short institutional memory caused by the frequent changes of government.

The change of government in early 2015 initially spelled further delays for privatisation. At the time, the new SYRIZA-led coalition was ideologically opposed to privatisation. While promising to respect previous deals, the government announced that it would not be continuing with plans for further sales. But the intensification of the crisis in the first half of 2015 forced the government to agree a third economic adjustment programme, with privatisation as a core component of the programme.

An ambitious privatisation programme was envisaged in the third adjustment programme. The economic adjustment programme agreed in August 2015 was built around four pillars, the third of which was "Growth, competitiveness and investment". An asset development plan was included in the MoU agreed by the Greek authorities and the EC, which spelled out the assets that would be privatised in the coming years. According to the plan, virtually all SOEs would eventually be privatised. The figure of €50 billion re-emerged as a long-term cumulative target, with the intention that half of these proceeds (i.e., €25 billion) would be set aside for bank recapitalisation and the remainder to be divided equally between investment and debt repayment.

A new structure was established during the third adjustment programme to manage the privatisation process. For the first time in Greece, a single corporation – the Hellenic Corporation of Assets and Participations (HCAP) – was set up to manage and exploit public property. HCAP was established in 2016, with the board of directors being appointed in 2017. It has four direct subsidiaries: the privatisation fund, HRADF; the Hellenic Financial Stability Fund (HFSF), which holds the state's stakes in the four systemic banks; the Public Properties Company, which is in charge of real estate; and the Public Holdings Company, which participates in SOEs. In addition to privatisation, HCAP also has a strong focus on enhancing corporate governance and improving standards of management (see quote from CEO of HCAP below).

Important sales have been successfully concluded in recent years. The main deals include the privatisations of Piraeus and Thessaloniki port authorities, the long-term concession on 14 regional airports, and the concession for 66 per cent of DEFSA. Other prominent sales include TRAINOSE, the Astir Palace Vouliagmeni and OTE.

[63] See V. Skreta, "Privatisations: auction and market design during a crisis," Chapter 5 of *Beyond Austerity: Reforming the Greek Economy*, edited by C. Meghir, C.A. Pissarides, D. Vayanos and N. Vettas, MIT Press, 2015.

[64] This paragraph draws on Skreta (2015), *op cit.*

But setbacks and delays have also occurred. For example, the major Hellinikon project (former Athens airport) was dogged for some time by delays in obtaining the appropriate permits. The attempted sale of a majority stake in Hellenic Petroleum failed to attract any bids, and a proposed €700 million PPP for broadband was also delayed in 2019 because of risks associated with the ability of the government to deliver on commitments.

The ND government, on entering office in July 2019, promised to give privatisation and PPPs a new impetus. The Covid-19 pandemic has adversely affected previous plans, but work is ongoing to bring major assets to sale in the coming months and years. Among other developments, closure of the financial transaction for Hellinikon depends on the resolution of certain legal cases. A concession agreement was signed in May 2020 for Alimos Marina (one of the largest marinas in the south-eastern Mediterranean) and the tenders for the infrastructure and commercial parts of the Public Gas Corporation, DEPA, were launched in late 2019 and early 2020, respectively.

Corporate governance is being strengthened in public companies in advance of commercialisation and privatisation. For example, the government has appointed a new CEO of the Public Power Corporation (PPC) who comes from the private sector, and it has strengthened the Board of Directors. The statutes of PPC are being amended to create an arm's length relationship with the government.

Greece has made commitments to its European partners to continue and complete the work of HCAP. The importance of well-functioning boards in SOEs is well-recognised by HCAP. The basic corporate principles for the corporate governance of SOEs, according to HCAP include the development of an appropriate and stable legal and institutional framework, the establishment and operation of Board of Directors with professional criteria, as well as committees per case, and the establishment of appropriate performance monitoring systems for the meritorious and efficient management of the SOEs' assets. According to the Enhanced Surveillance Report of June 2019, HCAP has proceeded with the Board review in its direct and other subsidiaries. The European Commission states that in order to ensure that the process can be sustained over time in an effective manner, it is necessary to ensure competitive remuneration of professional Board members. It also mentions that the implementation of the coordination mechanism that governs the interaction between the authorities and HCAP regarding the mandates and objectives of the SOEs has been launched.

Public-private partnerships have been carried out successfully in Greece. The country has a successful history of developing innovative financing structures for large projects, involving a blend of private capital and funds provided by the European Investment Bank and EU structural and JESSICA funds. A new PPP legal framework was approved in 2005 and, since then, 12 PPP contracts have been signed within this framework. Building on this experience, the hope is that key transactions can be carried out in future under a PPP arrangement.

Hellinikon

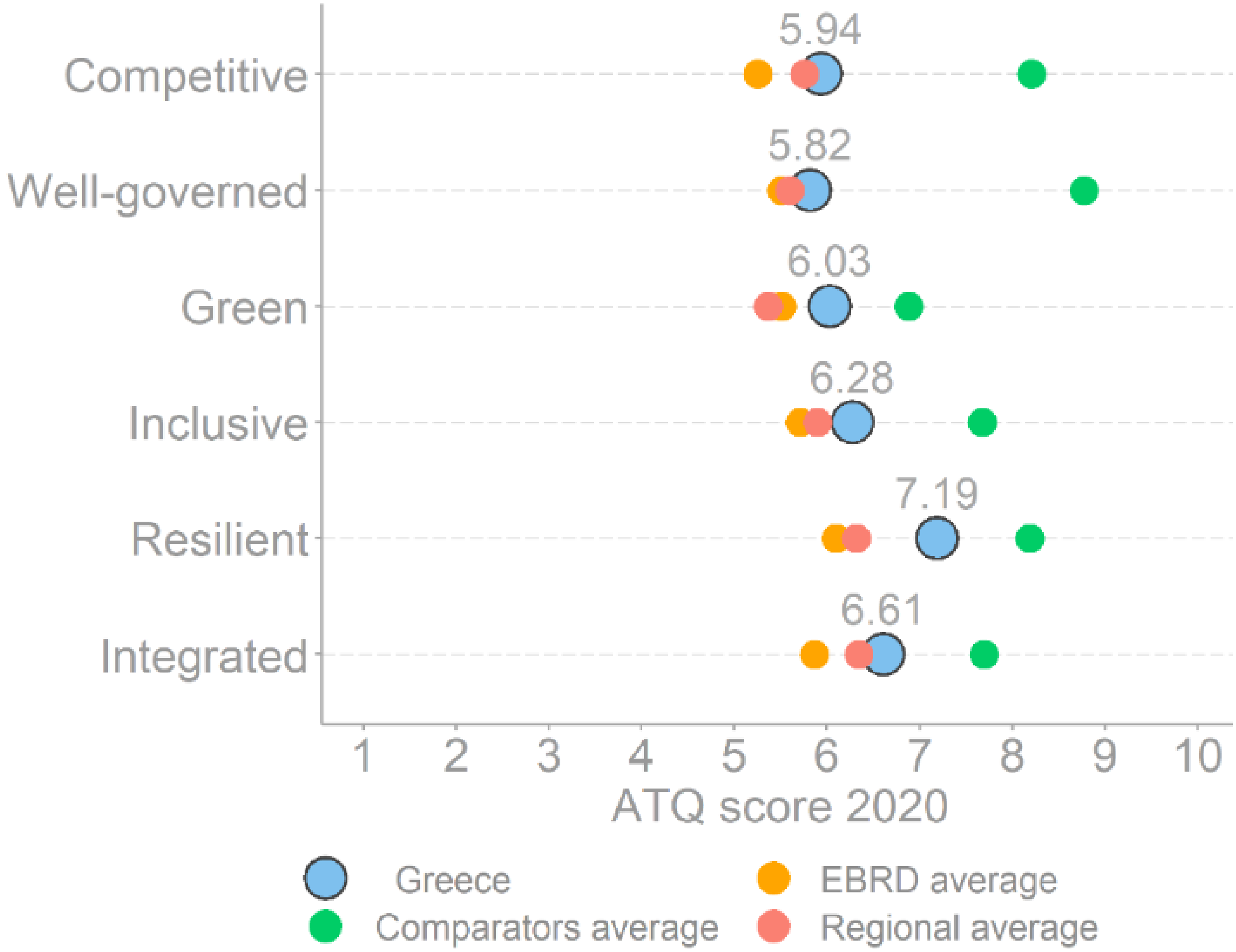
Hellinikon is the largest regeneration project in Greece. The Project consists of an integrated urban development model that will combine the area's natural beauty and unique inherent characteristics with landmark buildings and state-of-the-art infrastructure. In 2012, Lamda was selected as the preferred bidder for the development of the area following an international tender process by the Greek state. Regulatory and licensing barriers have stalled the Project. The implementation of the Hellinikon project is a top priority for the government.

Athens international Airport

The Athens International Airport S.A. (AIA) – named Eleftherios Venizelos – is the largest airport in the country, with 24 million passengers in 2018. The company was established in 1996 for building, maintaining and operating the Athens International Airport a period of 30 years. The concession is one of the largest private sector/Greek state partnership, with 30 per cent of share owned by the Greek state, 25 per cent by the Hellenik Republic AssetDevelopment Fund (HRADF), and 45 per cent owned by the private sector. In February 2019 the extension of the existing concession agreement for 20 more years, i.e., until 2046, entered into force. The right to extend the existing concession agreement has been transferred to the Fund by the Hellenic Republic. A public international tender was launched for the sale of 30 per cent of the airport and nine bidders had qualified for the Binding Offers Phase, but the Covid-19 crisis has led to the process being put on hold.

3. Qualities of a sustainable market economy

Greece – transition qualities



Source: EBRD.

Note: Visit https://2020.tr-ebrd.com/reform/ for the list of indicators, data sources and methodological notes.

Note: The level of development within each of the qualities is measured from 1 to 10, with 1 meaning little or no progress and 10 representing the frontier.

Source: EBRD.

The following sections provide brief snapshots of each quality.

Competitive [ATQ = 5.94]

Greece ranks 12th among EBRD's economies in the Competitive quality index with a mixed performance regarding both market structures, as well as capacity of the country to create value added. Despite the benefits of being an EU member country and the beyond-average performance in terms of access to credit, Greece's competitive potential is constrained by factors such as a business environment not conducive to entrepreneurship, limited exports of advanced services and low perceived quality of education.

Market structures and institutions for competition

- Greece scores below the EBRD average in the World Bank's **ease of doing business** index, as it stands toward the bottom of the ranking among EBRD countries. Such performance is reflected in the dimension related to regulatory regime that is not conducive to entrepreneurship as Greece scores below the EBRD average in terms of starting a business. In terms of resolving insolvency, the country's score is in line with the EBRD average.
- As a result of **EU membership**, Greece is very open to international trade in terms of tariffs and other trade barriers. Although services play an important role in the economy in terms of their contribution to GDP, the availability of more sophisticated services remains limited. Greece ranks at the bottom of EBRD's economies for share of communications, financial and other business services in total services exports.
- Greece demonstrates a positive attitude to supporting **small and medium-sized enterprises (SMEs)**, as measured by the score in the EBRD adjusted SME index, which is above the EBRD average. The state intervention in terms of subsidies paid to the private sector, public corporations and other sectors (scaled by GDP) appears to be limited, and ranking close to top performers among the EBRD's economies.

Capacity to generate value added and to innovate

- A profile indicative of Greece's economic structure emerges from the **Economic complexity** index, where Greece scores 4.6, below the EBRD average, and the **Global Value Chains (GVC) participation** index, where the country scores 6.5, better than EBRD average. These results suggest that, as a country heavily relying on services, Greece has a limited complexity and range of products exported but also a reasonable intensity of involvement in GVCs.
- In terms of **access to finance**, as measured by credit to private sector (as per cent of GDP) Greece remains significantly above EBRD average (with a score of 8.2 compared to an average of 4.7 in EBRD region).
- Greece scores well (5.6) in the EBRD adjusted **Knowledge Economy Index** above the EBRD average (4.6), ranking in the top 10 among EBRD countries. Nevertheless, when focusing on the Competitive indicator related perceived overall quality of education, which should reflect a key dimension of innovation, Greece is behind most of EBRD counties (with a score of 3.8 compared to an EBRD average of 4.3).
- The performance of the country in terms of other key productive inputs is positive. On **labour productivity**, measured as output per worker, Greece ranks 4th among EBRD's economies with a score (6) significantly above average (3.9). Physical infrastructure is also supportive as Greece is in the top five among EBRD countries in terms of quality of **transport** infrastructure as per The World Bank's LPI infrastructure quality index.

Chart: Competitive quality

Source: EBRD.

Note: Visit https://2020.tr-ebrd.com/reform/ for the list of indicators, data sources and methodological notes.

Well-governed [ATQ = 5.82]

85th in the quality of institutions among 141 economies (WEF GCR 2019)

97th in property rights protection (WEF GCR 2019)

80th in intellectual property protection (WEF GCR 2019)

83rd in judicial independence (WEF GCR 2019)

33rd in e-participation (WEF GCR 2019)

127th in burden of government regulation (WEF GCR 2019)

37th in protection of minority investors among 190 economies (WB Doing Business 2020)

Greece's well-governed quality has the lowest score among all six qualities according to the latest results of the ATQ (2020), but has improved compared to previous years.

The top two most problematic factors for doing business are **tax rates** and **inefficient government bureaucracy**, according to the WEF GCR 2017-8. Similarly, the Enterprise Surveys data for Greece (2018) identify tax rates and political instability as the most important obstacles for firms. While tax enforcement efforts have become more robust in recent years, high taxes cause many businesses to operate in the shadow economy.

World Bank's Worldwide Governance Indicators (WGI) show control of corruption, political (in)stability, and regulatory quality as the most worrying issues in Greece. According to Transparency International Corruption Perceptions Index 2019, Greece is at 60th place out of 180 countries and territories globally and below most EU member states.

According to the latest World Bank Doing Business 2020 report, Greece ranks 79th out of 190 economies in ease of doing business, dropping seven places compared with the previous year. The report points out that Greece made registering property more burdensome (156th out of 190 economies). Procedures for enforcing contracts, getting credit and dealing with construction permits remain worrisome, although Greece performs well in starting a business and trading across borders.

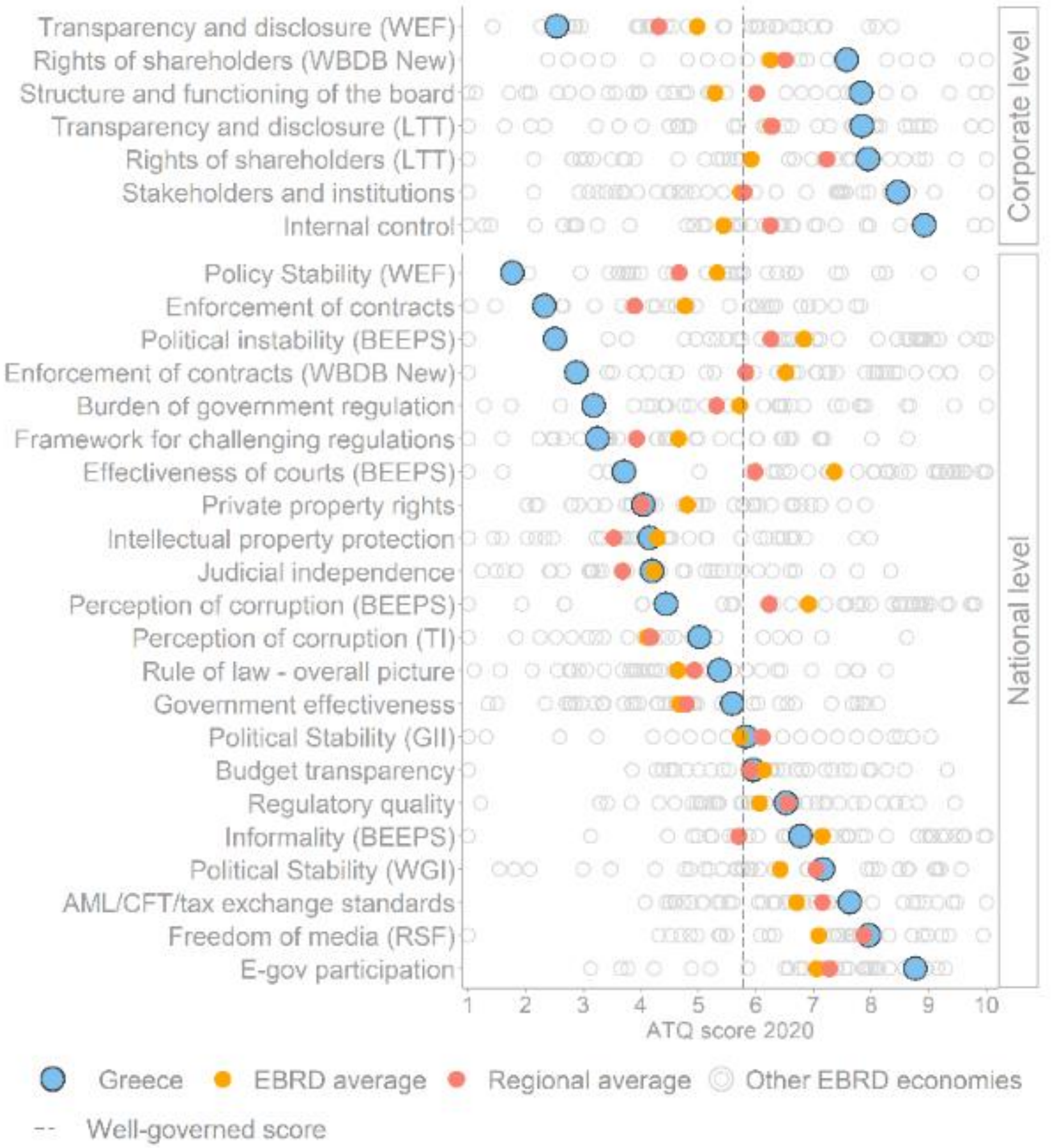
The European Commission's Rule of Law Report (2020) notes that the justice system continues to face challenges as regards its overall efficiency. The implementation record of a significant number of reforms in the context of the three Economic Adjustment Programmes shows mixed results.

The EBRD's assessment of corporate governance legislation and practices in Greece (2016) points to fair structure and functioning of the boards, with very weak gender diversity at the board, moderately strong transparency and disclosure, internal control, rights of shareholders, and stakeholders and institutions.

There are ongoing efforts in recent years to further promote transparency and accountability in the public administration. Notable progress has been made in the digitalisation agenda, especially during the coronavirus crisis.

Over the last years, Greece has carried out significant reforms in the area of public procurement. The work is ongoing and priority needs to be given to measures such as streamlining electronic procurement facilities and professionalising procurement staff. The Greek authorities have also commited to adopt a new public procurement strategy for the 2021-2025 period.

Chart: Well-governed Quality



Source: EBRD.

Note: Visit https://2020.tr-ebrd.com/reform/ for the list of indicators, data sources and methodological notes.

Green [ATQ = 6.03]

Greece's green economy transition should focus on phasing out fossil-fuel support measures, further promoting renewables and bringing waste and wastewater management techniques in compliance with EU requirements.

Greece's installed power generation is made up of coal (27%), oil (32%) and renewables (15%), which is close to the EU28 average. The country has seen a significant increase in the share of renewables in power generation, even over-achieving the targets set for solar photovoltaics.

All coal power stations are planned to shut down by 2028. Thus the future carbon footprint of the sector will depend on the choices made between renewables and gas.

About 80% of municipal waste in Greece is landfill, which is almost double the OECD average. Household waste production is rising and there is much unregulated and illegal dumping of that waste.

CO_2 emissions per capita of Greece fell gradually from 7.76 tonnes in 1997 to 6.06 tonnes in 2016 but more ambitious sustainable energy and energy efficiency targets are required to reach EU climate goals. A key element in achieving this is the phasing out of fossil-fuel support measures (i.e. tax and VAT reductions for fossil fuels used in industrial and residential sectors) and the increase of environment-related taxes, which remain negligible in sectors other than energy and motor vehicles.

Additional air quality regulations and investments are needed. The intensity of air pollution emissions in Greece remains high, especially regarding SOx, NOx, and PM2.5, which far exceed the EU average. No decoupling of SOx emissions from GDP growth has yet been achieved and the investment effort on air pollution abatement and control has been low (less than 1 per cent of GDP).

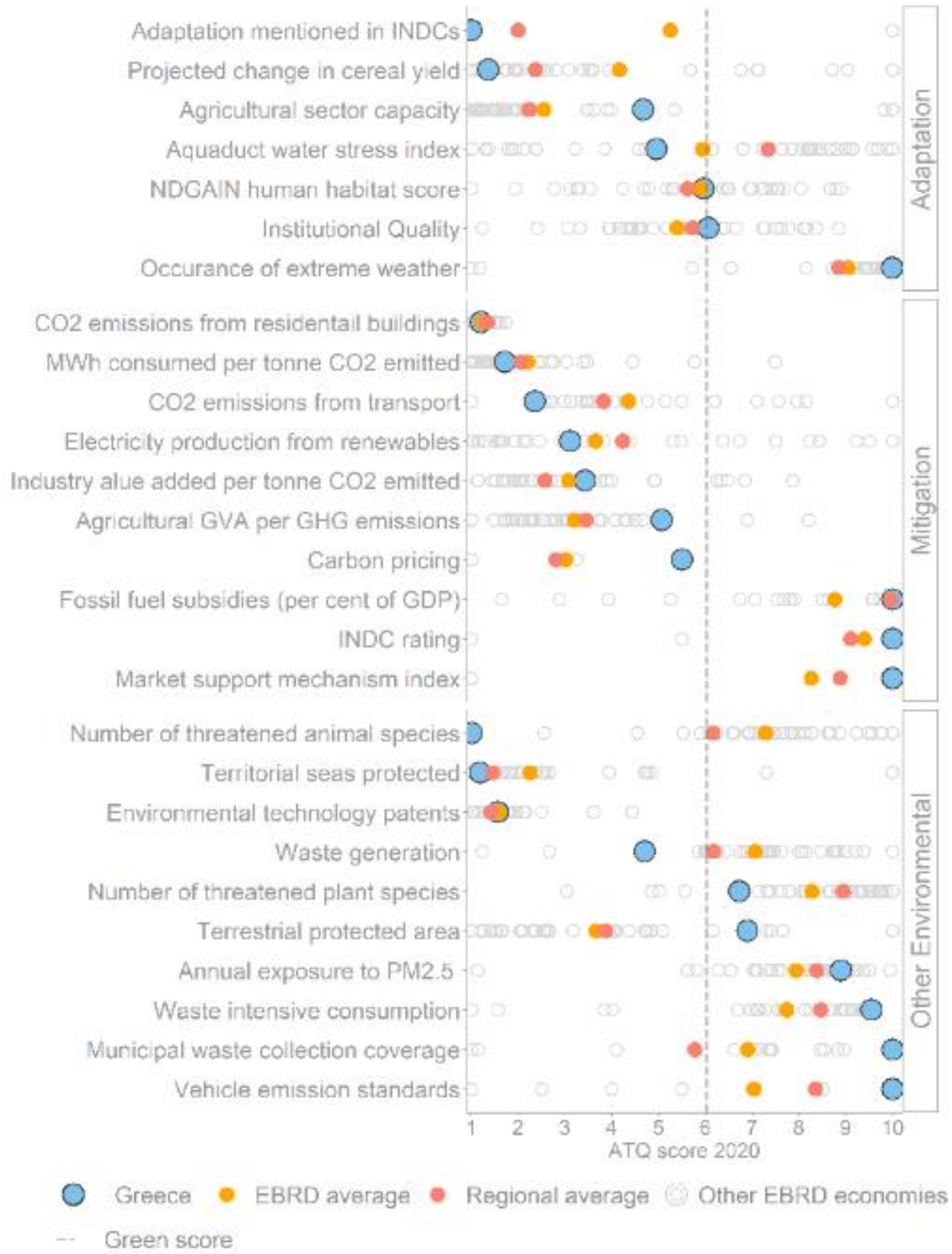
In light of commitments to phase out coal-fired power plants, a just transition approach for coal workers and their related communities needs to be developed.[65] A region in Greece (Western Macedonia), where there is a combination of mines and coal power stations, is a priority under the European Union's new Coal Regions in Transition Platform. In accordance with the recently released Green Deal of the European Commission, the country will need to prepare a Just Transition Plan to address the issue.

Sustainable waste management and waste water treatment is urgently required to lower local pollution and avoid EU fines. While some progress has been made, Greece needs to make a major effort to put in place an adequate network of facilities that would effectively manage all the hazardous waste produced in the country. A landfill tax was introduced in 2014 but is not systematically enforced. As such, Greece is at risk of not meeting the 2020 municipal waste recycling target of 50 per cent. Furthermore, comprehensive sewage treatment and the level of waste water treatment in Greece is among the lowest in the EU. The main pollution sources are household waste water and agricultural pollution. Operational effectiveness on waste water treatment and municipal waste water infrastructure need to be improved.

Greece is already affected by climate change, with potentially large negative impacts on private sector agents (e.g. in agriculture). Water issues, extreme temperatures and wild fires are amongst the largest risks that have materialised in the last few years and will likely continue to grow in importance. Greece adopted its National Adaptation Strategy by law in 2016 and work is ongoing to develop Regional Adaptation Action Plans. However, Greece lacks urban climate adaptation planning and a spatial approach to climate-resilient infrastructure.

[65] World Bank, 2015

Chart: Green Quality



Source: EBRD.

Note: Visit https://2020.tr-ebrd.com/reform/ for the list of indicators, data sources and methodological notes.

Inclusive [ATQ = 6.28]

On Inclusion, multiple ATQ indicators point towards gaps that continue to hinder the country's path towards a sustainable market economy. Greece struggles with high rates of unemployment, and especially women and youth experience disproportional barriers when it comes to economic opportunities. Regional disparities persist with regards to access to education and services; the Greek islands (the Dodecanese islands, Lesbos and Samos) are particularly strained due to irregular migrant influx as a result of the Syrian refugee crisis.

Overall, gender gaps are large in Greece compared with other EBRD COOs and larger than in any other EU country. Although women are more likely to have completed upper secondary education than men, women's labour force participation remains low at 45 per cent (compared to 60 per cent for men and the EU average for women participation at 51 per cent). According to the world Social Institutions and Gender Index (SIGI) – which estimates discriminatory handling in legal and justice practices – Greece performs at the overall EBRD average for gender equality with an index of 0.271, performing worst on women's participation in business and parliament, and discrimination in the family (assets). Access to finance and financial inclusion is lacking for all and thus the gender gap remains small.

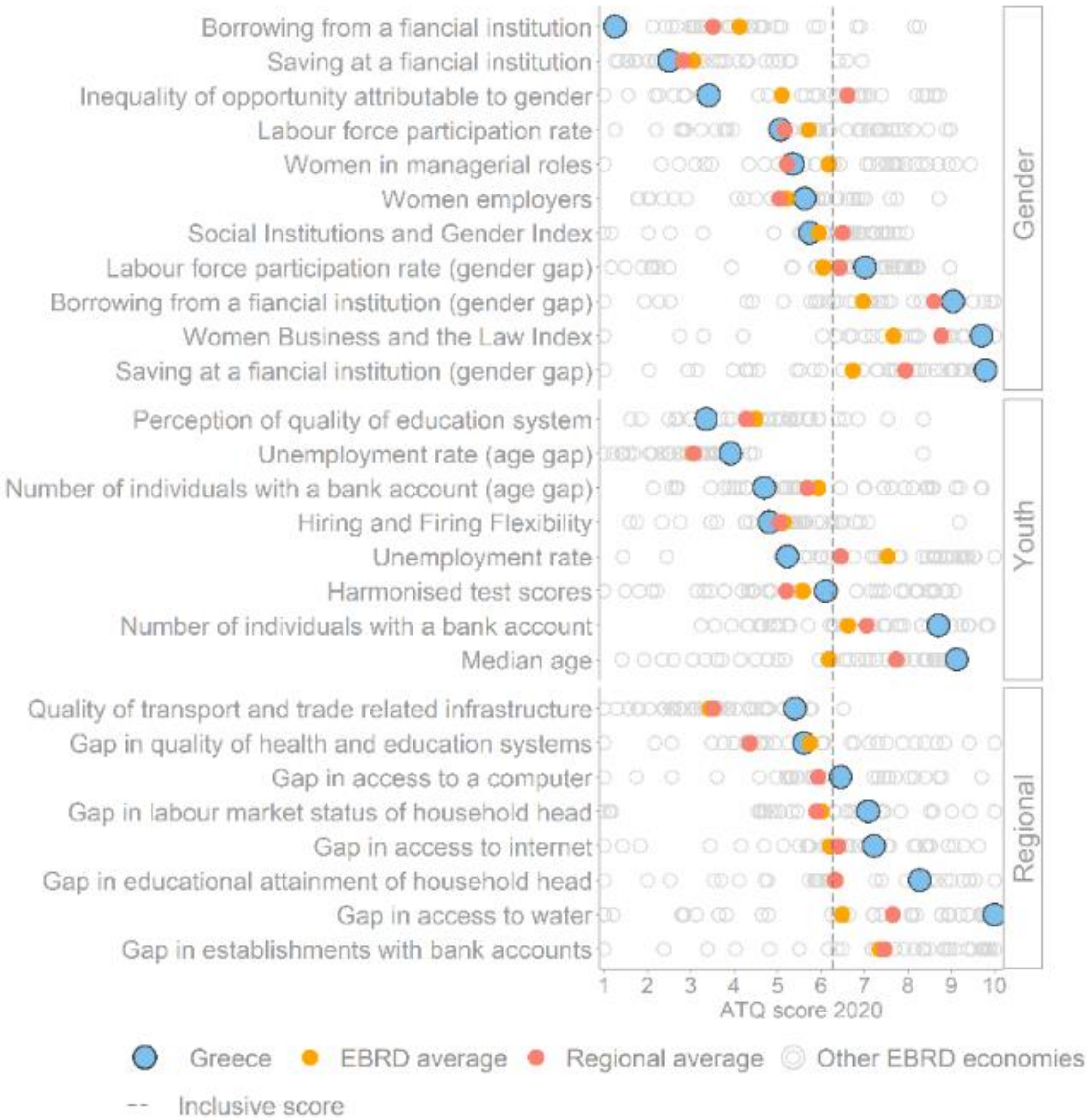
Greece performs in the median range among EBRD COOs with regards to Youth Inclusion. Employability of recent graduates, strong outward mobility and skills mismatches remain key challenges for the economy, further magnified by the increasing dependency ratio. Despite recent improvements, youth unemployment remains high (39.9 per cent in 2018, among the highest in the EU). According to harmonized test scores, the quality of education in Greece remain below OECD average but relatively high compared to other EBRD COOs.

Regional discrepancies remain large across Greece's mainland and its islands, with regards to access to quality health care and education. The irregular migrant populations have put additional strains on local resources and resulted in severe water shortages on the affected islands. In August alone, 7,712 people arrived, more than double the number in the same month in 2018. While refugee camps are expanding on the Greek Islands, Greece is no longer a pure transit country but has also become a settlement country.

This development brings a number of challenges, particularly in the area of employment and social policies. The majority of migrants in Greece tend to be overrepresented in low skill jobs, often work below the minimum wage and in the informal economy. Structural barriers such as lack of validation and recognition of foreign professional qualifications hamper migrants' integration in the labour market.

Significant shortcomings have also been found with respect to support structures for children or people with disabilities. There is no National Action Plan and learning support for children with disabilities is only scarcely provided. The latter results in a large employment gap for people with disabilities.

Chart: Inclusive Quality



Source: EBRD.

Note: Visit https://2020.tr-ebrd.com/reform/ for the list of indicators, data sources and methodological notes.

Resilient [ATQ =7.19]

Despite improvements in economic conditions, the Greek financial system continues to operate under very challenging conditions. The financial sector is recovering at a slow pace and from a very fragile condition. The most serious challenge local banks face is the high level of NPLs. Although NPL volume decreased from its peak of c. €110 billion in 2017 to €87 billion (March 2019), NPLs share out of total gross loans remains the highest in the EU and the 2nd highest in the EBRD region, at 36.7 per cent (June 2020).

Banking sector liquidity is improving, but is still low in EU standards. Liquid assets to short term liabilities increased by 2 pp. in 2018 from a low of 24 per cent. The reliance on central bank's funding has decreased, and banks have fully repaid their ELA. In parallel, costumer deposits have started to grow again in 2018, further improving banks' funding profile. According to Bank of Greece, corporates' and households' deposits in September 2019 are 14 per cent higher than in 2015. This trend is expected to increase in the post-Covid-19 period, as economic recovery continues and depositor confidence is restored.

Banking sector profitability is among the lowest in EBRD countries of operations. The banking sector recorded mostly negative returns in recent years, mainly due to high loan loss provisions, driven by poor asset quality, and low operating profits. As low profitability hampers banks' ability to broader their capital base, Greece's capital adequacy ratio is among the lowest in the region, at c. 16 per cent. While capital position is generally adequate, the quality of capital is undermined by a high share of deferred tax credits (DTCs). DTCs amounted for c. 60 per cent of CET1 capital on average for the four systemic banks in 2018. In light of the challenging circumstances, bank financing of the economy is limited. Bank Credit growth was mainly negative throughout much of the last decade. However, credit growth to non-financial institutions was slightly positive in the first quarter of 2019,[66] on a year-on-year basis, signalling a slow recovery of demand for new lending. At the same time, household credit continued to contract, and SMEs access to finance remains constrained.

In terms of energy resilience, Greece has made significant progress in natural gas market opening in recent years, primarily related to the country's bail-out conditionality. Independent LNG and pipeline gas imports have pushed down incumbent DEPA's market share significantly, with downstream gas consumers now enjoying a relatively diversified supply mix in terms of both sources and suppliers. Greek supply optionality and security is set to expand further in the coming years with a series of new infrastructure projects including the Trans-Adriatic Pipeline, Interconnector Greece-Bulgaria, and expanded LNG infrastructure; while trading in the context of the newly-established Energy Exchange will lend further support to these goals.

Progress on electricity market reform has been less successful so far. The establishment of the Energy Exchange represents the most significant recent development and brining closer Greece's market coupling with its neighbours as per relevant EU requirements. However, the Public Power Corporation (PPC) remains a big and significantly unreformed SOE with serious liquidity constraints; a corollary of its own shortcomings, broader market design issues, and a large legacy portfolio of lignite-fired generation capacity subject to high emission costs. The government has vowed to close down lignite plants by 2028 and to modernise PPC, which should be seen as key priorities for the Greek energy sector.

Privatisation of gas and electricity networks has also made substantial progress, notably with the successful completion of the ADMIE and DESFA divestments; whilst privatisation of the relevant

[66] Enhanced Surveillance Report, Greece, June 2019 (European Commission Institutional Paper 103)

generation/supply business (PPC and DEPA) fell behind as a result of design options and overall business environment. In the short term, the focus will be on the privatisation of Hellenic Petroleum (where the government continues to control the Board of Directors, despite only holding a minority stake in the company). The focus should now be on improving the efficiency of pending SOEs, both as a goal on its own right but also for preparing them for privatisation once the business context is more conducive.

Chart: Resilient Quality

Source: EBRD.

Note: Visit https://2020.tr-ebrd.com/reform/ for the list of indicators, data sources and methodological notes.

Integrated [ATQ = 6.61]

Trade as a share of GDP*: 64.6 per cent compared with a 71.4 per cent average for selected OECD comparator countries**.

FDI inflows as a share of GDP*: 1.4 per cent compared with a 2.2 per cent average for selected OECD comparator countries.

Portfolio inflows as a share of GDP*: 0.1 per cent, compared with a 2.4 per cent average for selected OECD comparator countries.

Quality of infrastructure: ranked 38th out of 140 countries (WEF GCR, 2018)

Logistics performance (international) index: ranked 42nd out of 160 countries (WB, LPI database, 2018)

* Five-year average

** The set of comparator countries includes CA, CZ, FR, DE, JP, SE, UK, US.

Greece ranks 12th in the Integrated Dimension among the EBRD overall region. Internal integration in Greece fares better than external integration. Transport infrastructure, logistics, energy and ICT generally compare favourably with other south-eastern European (SEE) countries. At the same time, the trade environment and private capital flows have been relatively weak in the past few years.

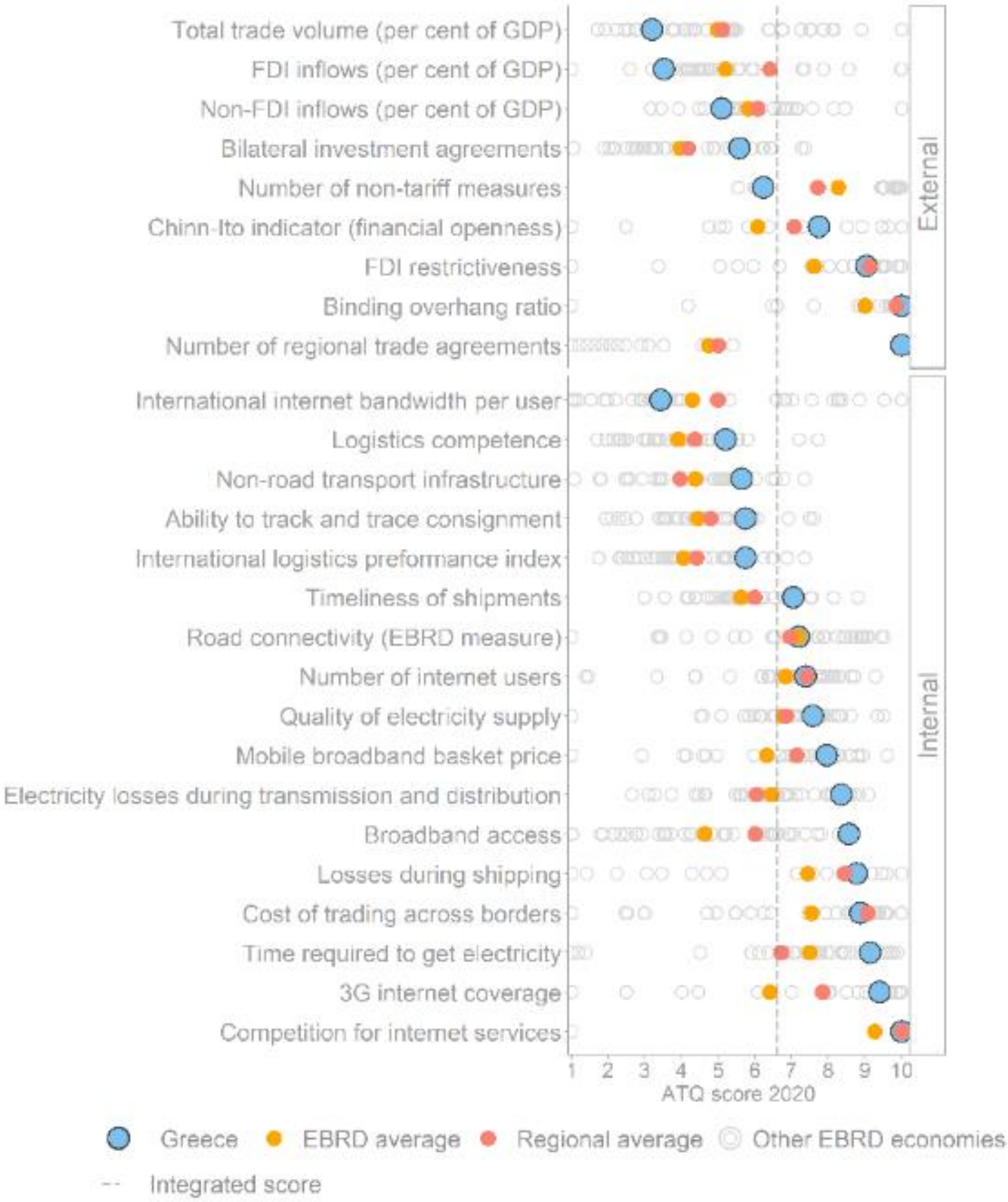
External integration

- **Trade environment:** The share of trade in GDP in Greece is lower than in other EBRD COOs and in other SEE countries. While the country enjoys 41 regional trade agreements as a result of EU membership (EBRD countries average: 18), there is a considerable number of non-tariff measures in place (sanitary, phytosanitary and technical), which obstruct trade integration.
- **Investment environment:** In recent years, FDI flows to Greece have been limited. The share of FDI inflows in GDP is well below the average of EBRD countries or SEE countries. This is despite the country having relatively few FDI restrictions, and being a part of a relatively high number of bilateral investment agreements.
- **Non-FDI environment:** Greece's capital account openness is above the EBRD average and above the regional average for SEE countries. Nonetheless, the five-year average of portfolio inflows as share of GDP is lower than for these two groups. This again suggests Greece's limited success in attracting private capital flows in recent years.

Internal integration

- **Domestic transport:** The quality of Greek transport infrastructure (roads and ports) is better than of EBRD COOs and SEE peers. The country also performs relatively well when it comes to the efficiency and connectivity of air transport, and logistics competence and timeliness.
- **Cross-border integration:** The cost of trading across borders (measured as time and cost of the logistical process of exporting and importing goods) is on par with other SEE countries and fares better than the EBRD average. The same is true about border efficiency and the ease of arranging international shipments.
- **Energy and ICT:** Greece is ahead of other EBRD countries and other SEE countries when it comes to the quality of the electricity supply. Almost 70 per cent of the population are internet users (compared with 65.6 in the EBRD CoOs and 86.7 in selected OECD countries). Broadband access is high, though international internet bandwidth per user is still lagging behind other EBRD CoOs.

Chart: Integrated Quality



Source: EBRD.

Note: Visit https://2020.tr-ebrd.com/reform/ for the list of indicators, data sources and methodological notes.

European Bank for Reconstruction
and Development
One Exchange Square
London EC2A 2JN
United Kingdom
Tel: +44 20 7338 6000
Fax: +44 20 7338 6100
www.ebrd.com

This document was approved in January 2021.

Photography: iStock.

This document can be found at
www.ebrd.com

European Bank
for Reconstruction and Development