

Population | 1.3 million  
GDP per capita | 24,510 USD  
Annual GDP growth | 2%  
Govt. debt, % of GDP | 160.1%



Capital | Athens

Government | Unitary parliamentary republic

# GREECE

## ISE Country Stocktaking

Key Findings, Future Scenarios and Critical Tasks for State Transformation  
June 2022

ISE's country stocktakings present a view of a country to evaluate opportunities for reform during pivotal periods in its development trajectory. Stocktakings diagnose countries' "open moments" and pathways for reform by assessing the performance and capability of various state functions and citizens' view of the state while mapping the various international partners operating in the country and the alignment of key stakeholders around a potential reform agenda. Based on this assessment, ISE lays out the key medium-term issues facing the country, outlines potential scenarios for the future of the country and presents critical tasks that could bring about the best-case scenario.

### The Current Reform Context

Greece's current context is shaped heavily by a decade-long debt crisis from 2008 to 2018. No other developed country in modern times has seen its economy shrink by a quarter within five years, incomes and pensions reduced by at least as much, and unemployment persisting at above 25 percent, rising to almost 60 percent among young people. Under strict austerity measures imposed during the crisis, public services were drastically reduced, and young and educated Greeks left the country.

For more than a decade, Greece's capacity to exit the recent debt crisis has dominated discourse because of its disruptive impact and outsized bearing on prospects for reform. The crisis has also shaped Greece's relationship with Europe. Between 2010-2018, Greece entered into what resulted in three Economic Adjustment Programs (EAPs) in exchange for loans of €288.7 billion from the 'Troika', a collaboration among the European Central Bank (ECB), European Commission (EC), and the International Monetary Fund (IMF). The EAPs included policy measures to reduce the country's deficit and restructure its economy along the lines of the more robust economies of northern Europe. However, lack of domestic socio-political consensus and government ownership of the reforms have been cited as reasons for Greece's failure to fully implement the EAPs.

Owing to the EAPs, Greece surrendered a significant degree of national sovereignty to remain within the EU core of a stable common currency and to avoid the most catastrophic implications of a disorderly default and euro-exit. The experience of crisis management under the lender institutions, expediting or circumventing normal parliamentary democratic procedures, has raised serious issues of governability and legitimacy, while vulnerability in the face of a next crisis has been far from eradicated. Despite these challenges, Greece successfully exited the European Stability Mechanism support program, on time, in August 2018. From 2015 to 2019, the second Syriza government ran a balanced budget rule and exhibited good fiscal performance.

The COVID-19 pandemic abruptly interrupted this steady recovery. While the government took quick measures to limit the blow to economic activity and employment, the country still suffered a sharp decline in real GDP in 2020 and in the first quarter of 2021. Extended lockdowns led to increased public debt and disruption. However, contrary to expectations, Greece experienced economic recovery in the 2nd and 3rd quarters of 2021. Over the first nine months of the

year, gross domestic product grew 9.3 percent, and the government estimated that the economy would grow 6.9 percent over the year. As Greece emerges from the COVID-19 pandemic and a decade of economic crisis, continued growth looks likely.

The Recovery and Resilience Plan, funded by the European Union's Recovery and Resilience Fund (RRF), is Greece's primary reform plan and intends to foster a strong recovery to "make Greece ready for the future." The plan combines specific reforms with investment in climate objectives and digital transformation. It provides a key opportunity for Greece to modernize its economy and move onto a path of sustainable development and growth. Enduring challenges for Greece include a weak social compact and general distrust of the state, fragmentation across policy areas and the state's inefficacy in delivering public goods. These challenges—and opportunities for continued growth and stability—are assessed below in the context of Greece's core state functions.

### Performance of Core State Functions

#### Governance

Greece is a parliamentary republic and has an advanced and complex governance system that is stable but weak. Despite reforms and interventions over the last several decades, as well as a general agreement that the governance system should be modernized, state bureaucracy and administration have only partially improved, hindering the country's economic, political and social development. Political stability was severely challenged by the economic crisis from 2008-2018, when the country faced difficult decisions including whether it would remain in the eurozone and how it would manage and repay its debt. Serious issues of governability and legitimacy arose during this period as a result of the perception that Greece had surrendered its sovereignty to its creditors in return for bailouts. While general elections are normally held every four years, in the context of strong macroeconomic and financial pressures between 2007 and 2015 six snap elections took place. Between 2015-2019, the government survived four votes of confidence.

Since 2018, stability and popular confidence have gradually improved; however, many of the reforms introduced during the economic crisis are yet to be fully realized. During the crisis, several central administration reforms were planned according to the agenda of international institutions and creditors, the aim of which was on the one hand to minimize expenses and on the other to improve the effectiveness of public services. The civil service has been a key target of reform, and its numbers have been significantly

reduced over the past decade. While this reduction has cut Greece's wage bill, there are concerns about staffing shortages in key service delivery sectors.

Greece has faced two key roadblocks in governance reform efforts: first, as mentioned above, various actors perceived the reforms as imposed and thus did not engage effectively during the design and implementation process. Second, new policies were implemented in a short timeframe and under immense pressure. While administrative reforms were presented only as a subchapter of necessary structural policies, their high number and horizontal nature were a serious challenge. Financial management, tax administration, recruitment procedures, simplification of procurement systems, improvement of absorption of EU structural funds, privatizations and strengthening of regulatory agencies are only a few of the long list of areas that need to be reformed quickly. The country is soon exiting the creditors' enhanced surveillance program; there is a risk that the reform efforts will halt.

Key governance issues in Greece include:

- » Central administration reforms planned during Greece's economic crisis were presented on a short time frame in a high-stakes context and were viewed by many as imposed by international institutions and creditors, which weakened engagement with their design and implementation.
- » Civil service personnel cuts enacted during the economic crisis lowered Greece's wage bill but resulted in reduced recruitment, decreased salaries and staff shortages in key service delivery areas, such as healthcare and education, as well as at the senior level, where capable civil servants are needed to manage government transitions and advise on policy implementation.
- » Despite ongoing efforts to modernize transparency and accountability mechanisms, Greece's public administration can be hierarchical, fragmented and slow. Some staff are appointed via clientelist relationships. This results in opacity, corruption and a general mistrust of the state.
- » While Greece has undertaken two major decentralization reforms, the 1997 Kapodistrias and 2010 Kallikratis plans, Greek regions and municipalities continue to have low autonomy. Greece is regarded as the most centralized country in the European Union.

## Security

Greece has a long history of domestic political violence and extremism. Despite the adoption of a government strategy on counterterrorism at the turn of the millennium—which limited domestic terrorism and precipitated the arrest of the November 17 far-left terrorist organization's leadership—low-intensity violence and police response remain an issue. The protracted economic crisis hurt the health of Greece's democracy and tolerance for political violence. The neo-Nazi Golden Dawn party became the third-most-popular party in the country during the austerity years. In 2020, leaders were convicted for constituting and/or participating in a criminal organization that orchestrated or colluded in three murders and numerous brutal attacks against migrants and trade unionists. There are also reports of attacks across the country on persons perceived to be migrants or Muslims. Hate crimes against migrants and LGBT individuals have been on the rise since 2020. Greece also has a long history of particularly violent relations

between the policing arm of the state and protesters. Failures in police accountability and in addressing violent acts perpetrated by the police have led to impunity and repeated human rights violations. Additional domestic security challenges relate to the demographic issue of Greece's aging population, chronic failures of the state administration, a dysfunctional education system and the country's lack of a robust crisis management mechanism.

In recent years, Greece has adopted a more active regional foreign and security policy in response to longstanding tensions with Turkey, as well as turbulence in the wider region. Greece relies on a combination of internal and external strategies to deter security threats, including relatively heavy military expenditure, as well as participation in NATO, OSCE, and the EU. However, these European security and political organizations exclude other regional countries in the Western Balkans and Middle East, and the Eastern Mediterranean lacks a regional security framework of its own. As a result, Greece's regional security policy is based on two strategies: encircling Turkey by developing strategic ties with regional countries, such as Egypt and Israel, and using its leverage within Western institutions to push back against Turkey. Offshore natural gas deposits in the Eastern Mediterranean have led to an energy scramble in the exclusive economic zones (EEZs) of Cyprus, Egypt, and Israel and add a layer of complexity to the long-standing Turkish-Greek maritime disputes in the Aegean Sea and over Cyprus. Greece's relations with non-Western powers such as Russia and China, which have demonstrated a strong interest in its energy and transport infrastructure sectors, have exhibited uneven development. China has invested heavily in Greek infrastructure projects, while Russia's engagement has been less successful. The United States increasingly views Greece as a strategic ally and stabilizing force in the region and recently deepened its partnership through an expansion of the Mutual Cooperation Defense Agreement (MCDA).

Key security issues in Greece include:

- » Greek-Turkish relations, especially disagreement over maritime borders, are characterized by a repeating cycle of tension, negotiation, and tension.
- » The traditional sources of friction between Greece, Turkey and Cyprus now overlap with energy disputes over natural gas in the eastern Mediterranean, adding to regional instability.
- » Extremism and domestic political violence remain concerns. During the economic crisis, the neo-Nazi Golden Dawn party became the third-most popular party in the country. Hate crimes against migrants and LGBTQ individuals have increased since 2020.
- » In recent years, police violence, particularly towards minorities and protestors, has risen and is met with anger, resistance and calls for public accountability.

## Rule of Law

A functioning democracy since 1975, Greece's well-established institutions guarantee and safeguard the rule of law. Fundamental and constitutional rights are protected through the courts and independent authorities. Greece has also signed and ratified all relevant international human rights conventions. Nevertheless, the practical application of the law is faulty and uneven. Since the election of the New Democracy government, measures that limit

fundamental rights have been introduced or adopted, partially in response to the COVID-19 public health emergency. These include legislation introduced in 2020 limiting the freedom of association and a draft bill from October 2021 that aims to create a regulatory framework for the operation of all civil society organizations in the country, which received negative criticism from NGOs that believe it will further limit their operations and development. Some members of parliament, civil society actors and analysts call the measures anti-constitutional and antidemocratic. Additionally, courts and disciplinary bodies have struggled to tackle corruption in the civil service and are slow to deliver justice due to significant backlogs. While ambitious reforms were enacted during the crisis, progress so far has been moderate, and the country lags in regional and international comparisons. Justice reform activities that aimed to enhance the organization and management of courts and the promotion of alternative dispute resolution mechanisms have not yet resulted in significant improvement to the quality and efficiency of the justice system. Despite a wide range of anti-corruption reforms, the country's anti-corruption mechanisms have not been fully operational, while the country's checks and balances system remains an area of concern.

Access to the Greek justice system is limited by backlogs in courts, problems with court performance, resource constraints, and prejudice. Greece undertook a series of reforms to improve its justice system and more such reforms are underway; however, so far, the implementation results are mixed, and challenges remain. The excessive length of trials has been criticized by international institutions, including the European Court of Human Rights. While allowed in civil and administrative trials, settling cases outside of court is uncommon in Greece despite attempts to promote settlement procedures. Appeals are common and constitute another factor that slows the courts as most first-instance decisions are appealed. Court performance also suffers in quality due to poor organization, burdensome procedures, and restrictions in the way of legal services. Inconsistencies in rulings by different courts encourage people to appeal first-instance decisions. Furthermore, judges can often be inexperienced as they lack adequate training, and the system does not offer procedures to measure quality and performance. The constitution and law provide for the right to a fair and public trial, and the law grants defendants a presumption of innocence, but access to free legal representation is poor. Furthermore, judges are often subject to racial prejudice. Defendants who do not speak Greek have the right to free interpretation, but in practice, interpretation is not always available or is not of adequate quality.

Key rule of law issues in Greece include:

- » While reforms have attempted to address corruption, levels in the public sector remain high in part because there are not sufficient personnel, tools and resources to fight high-profile cases and sophisticated financial crimes. The regulatory framework is also incomplete and there are gaps in policy implementation.
- » Backlogs in courts result from a judicial system in which long trials and appeals are typical. Settling cases outside of court is uncommon despite attempts to promote settlement procedures. Meanwhile, the use of violence to redress personal grievances is an increasing concern in Greece.
- » Greek legislation is fragmented and lacks coherence. A

Law on the Executive State, Law 4622/2019, introduced far-reaching reforms that aim to improve the quality of regulation and legislative drafting. However, the implementation of the Law is ongoing.

- » Systemic problems in the investigation, prosecution and punishment of law enforcement officers for abuses of power and excessive force continue to exist and have increased since the election of the New Democracy government in 2019.
- » There have been both losses and gains in the protection of migrant and minority rights. The International Protection Act of January 2020 limits asylum seekers' access to protection and exposes them to greater risks of deportation and longer periods of detention. On the other hand, the detention of unaccompanied children in police stations was recently halted.

### National Accountability Systems: Public Finance

After the first of three Economic Adjustment Programs (EAPs) with the EC, ECB and IMF (the "Troika"), Greece made rapid progress in reducing its enormous national fiscal imbalances. The fiscal deficit rapidly declined from 10.3 percent of GDP in 2011 to 3.7 percent of GDP in 2014. Pension system reform was a key focus of the EAPs and the largest driver of fiscal savings in the reform process. However, public debt as a percentage of GDP increased to 179.7 percent in 2014, largely because of the addition of Greece's bailout loans and the country's sharply contracted GDP. Debt has since increased to over 210 percent of GDP in 2021, making Greece's debt-to-GDP ratio the third highest in the world. In this context, the country has enacted, and continues to roll out, sweeping reforms in all aspects of budgetary governance. Under the EAPs upon which loans from the Troika were conditioned, Greece implemented structural, fiscal, and institutional reforms aimed at restoring growth, facilitating consolidation and bringing the domestic fiscal governance framework in line with international best practices. The EAPs also imposed heavy front-loaded austerity policies. While more improvements are needed, the main features of a functional and reliable internal control system for financial management are in place. Reports issued by the OECD and European Semester on Greece's progress have largely been positive.

Creditor-imposed reforms have brought about changes that have enhanced credibility and transparency in Greece's budgeting process. This includes the suppression of most special accounts, clearer budget nomenclature and comprehensive financial reports published through the budget cycle. Despite progress, there are still relatively low levels of budget transparency and parliamentary engagement in the budget process. There is limited citizen engagement, no process for inclusive and participative budgeting, and the government does not publish any citizens' budgets. In addition, Greece still operates with two separate budgets: one for ordinary spending and one for public investment. This has several negative consequences, including a lack of transparency in the resource allocation process and challenges in monitoring budget execution.

Looking forward, public procurement is a priority area for reform and has long been deemed unsatisfactory by the EU. The first major overhaul of the procurement system was in 2016 when the government adopted a far-reaching National Strategy on Public Procurement, the goal of which was a more transparent, cost-efficient, and business-friendly public procurement system. The operation of

the National e-Procurement System led to significant cost savings – over 19 percent in 2017 for e-Procurement alone. Overall progress in this area has been slow, but reform is a priority given that public procurement will play an essential role in the efficient management of funds under the Recovery and Resilience Facility. In March 2021, the government passed a legislative amendment to address the most urgent pending issues in public procurement and adopted a new public procurement strategy for 2021-2025 aimed at ensuring more sustainable and efficient use of public resources. Several challenges remain in this area, among them the digitalization of the central procurement system of the health sector.

Key public financial management issues for Greece include:

- » Greater emphasis could be placed on fiscal risks and on demonstrating how Greece's fiscal policy stance will help safeguard public finances and the economy against future shocks.
- » Greater alignment in the formulation and execution processes for Greece's two budgets is possible and could be useful. Consideration could be given to fully integrating the two budgets. Participative budgeting could also be improved.
- » Public procurement reforms are needed for Greece to manage funds under the Recovery and Resilience Facility in line with EU standards. The government adopted a new public procurement strategy for 2021-2025, though challenges, such as digitalization, remain.
- » Strengthening policy-costing capacities in the General Accounting Office and the General Directorates of Financial Services of line ministries could advance good political decision-making on resource allocation or reprioritization.
- » Computerization of state finances has been a recent endeavor and remains incomplete despite ambitious rhetoric by consecutive Greek governments since the late 1970s.

## Asset Management

Greece has significant social, cultural and heritage, and natural and environmental assets. Its population is highly educated, though the economic crisis widened inequality and precipitated significant emigration and brain drain. Greece's cultural and heritage asset management is centralized and relatively strong. Tourism is one of the most important sectors of the Greek economy and a key pillar of economic growth: tourism revenue accounted for 20.3 percent of GDP in 2019. In part because of their role in sustaining the tourism industry, Greece's natural environment, as well as its transportation and logistics infrastructure, are key assets. The country's ancient past and Eastern Orthodox religious traditions also drive tourism. Greece's natural and environmental assets include substantial mineral wealth; however, economic, environmental, and social parameters are needed to guide Greece's extractives approach to help ensure sustainable development. Agriculture is highly inefficient but has benefited substantially from EU subsidies. Greece's extensive coastline and numerous islands have always supported intensive fishing activity but overfishing and the failure to conserve fish stocks properly, a problem throughout the Mediterranean, have reduced the contribution of fishing to the economy.

Key public asset management issues for Greece include:

- » Greece lacks a comprehensive climate change adaptation

strategy that is commensurate to the ecosystem, economic and human health risks climate change poses.

- » While reform was a key focus of the 2020 Pissarides Commission Report, which provides the government with a vision statement and roadmap for economic transformation, Greece could benefit from a master plan for tourism to mitigate environmental damage and address structural problems.
- » Though currently in progress, the incompleteness of the Hellenic Cadastre (Greece's updated national cadastre system) has been a key obstacle to effective asset management. For instance, it hindered the reduction of public debt through privatizations and exploitation of public property.

## Market Engagement

Greece's market-building approach has trended towards an unequal system of support and protection by the state, where resources are funneled into a fragile economy that discourages a robust private sector. With the Europeanization that followed single market integration, state involvement began to incorporate some market-oriented characteristics, which were amplified under the bailout programs. Consistent with the requirements of the Economic Adjustment Programs (EAPs), successive governments have sought to liberalize the labor market fully and increase economic competitiveness. However, privatization has advanced slowly, and inefficient state-owned enterprises remain prominent. Greece's domestic market is characterized by underperforming firms and weak labor productivity, stemming from low levels of investment and innovation. Competition and innovation are also hindered by Greece's business landscape, which is the most fragmented in Europe. According to OECD data, 99.9 percent of its companies are SMEs and 97.3 percent are micro-enterprises, with fewer than 10 employees.

Greece has long maintained a significant trade deficit. Although exports of goods and services rose by more than 43 percent between 2009 and 2019, (to nearly 37 percent of GDP from about 20 percent in the years preceding the crisis), and export destinations were diversified (mostly driven by the tourism sector), exports and the overall economy remain largely undiversified and concentrated in low-knowledge intensity sectors. Petroleum products accounted for 29 percent of exports in 2021.

Given its strategic location, Greece is well placed to play a leading role in investment and trade linkages in southeastern Europe. The Eastern Mediterranean region is a bridge for trade between Europe and Asia. The Aegean Sea is an important shipping route, connecting the Black Sea with the Mediterranean, and a major transit route for energy product transportation and access to the Mediterranean. However, governance issues and transport infrastructure are among the key obstacles. For example, the time and cost to export from Greece are approximately double the level in OECD high-income countries, while countries in the Western Balkans have made huge progress in this area.

Other opportunity areas include the energy and agricultural sectors. Greece's publicly owned energy provider, PPC, is inefficient and could be reformed and commercialized. The establishment of the Hellenic Energy Exchange represents the most significant recent development. The decarbonization of PPC would help Greece achieve its renewable energy targets. However, it requires support



to develop a climate action plan that is reflective of international standards, as it lacks capacity and expertise. The state also has the opportunity to leverage a resurgent agricultural sector by making it more efficient and sustainable. There was a notable uptick in agricultural production as a result of the crisis and the move out of cities to rural areas, and Greece has comparative advantages in several agricultural products, including olives, cotton, and grapes. Setting up a knowledge and technology exchange with Western Balkan neighbors that have strengthened export promotion of agriculture in recent decades could pinpoint opportunities for investment in reform.

Key market engagement issues for Greece include:

- » The bailout reforms have not delivered structural market changes that are badly needed for more effective market building and economic growth.
- » The energy sector has potential but remains beset by problems. The establishment of the Hellenic Energy Exchange is the most significant recent development, but reskilling and increased capacity are needed for Greece to achieve its renewable energy targets.
- » Greece's resurgent agricultural sector could be more efficient and sustainable. Knowledge and technology exchange with Western Balkan neighbors, alongside continued reform to land administration and sectoral reviews and mapping of key market clusters, could form the foundation of a new agricultural economic strategy moving forward.
- » Given its strategic location, Greece is well placed to play a leading role in investment and trade linkages in southeastern Europe. However, governance issues and transport infrastructure are among the key obstacles.

## Infrastructure

Greece's infrastructure was severely affected by the debt and economic crisis. The total value of infrastructure projects decreased by 29 percent after 2009, though it has returned to its pre-crisis levels since then. The decrease in infrastructure investment during the crisis resulted in a €13 billion gap, and the average infrastructure investment level between 2009-2019 was 14 percent of GDP, the lowest in the EU. Implementation of infrastructure projects is also a challenge. Greece does not have a single state organization responsible for the planning, design and management of major infrastructure projects. As a result, delays and structural obstacles are common. In July 2020, the country began preparing a Strategic Project Pipeline to address these challenges. The Pipeline will support large-scale projects in the energy, environment, transport and digital sectors. The Greek government expects that the Pipeline will be particularly useful for mobilizing funds under the EU Recovery and Resilience Facility.

Greece's current infrastructure portfolio is heavy on transport and energy and lighter on the environment. In 2020, the Ministry of Infrastructure and Transport announced a €13 billion master plan to address some of the main weaknesses of the country's transport system. The plan covers a variety of projects, including new roads, rail, sky and sea links. The energy system is also undergoing a major transformation. The discovery of sizable natural gas reserves under the seabed of the Eastern Mediterranean in the 2000s and early 2010s positioned the region to emerge as a potential hydrocarbon supplier for the European market, and discoveries in the exclusive economic zones (EEZs) of Cyprus, Egypt and Israel raised hopes

that even larger natural gas reserves would be discovered, securing the feasibility of monetization projects. Some projects include the EastMed Pipeline, Trans-Adriatic Pipeline for natural gas transport and the Eurasia Interconnector for electricity. Gas and renewable energy markets are small but growing. Four new major investment projects in electricity production from renewable energy sources have been approved with a total budget of €2.02 billion. Environmental issues related to waste and wastewater management are a major challenge due to inadequate infrastructure, poor data and weak enforcement. A new National Waste Management Plan (NWMP) was approved in 2020 and applies for the implementation period 2020-2030.

Key infrastructure issues for Greece include:

- » An inefficient public infrastructure management system consisting of overlapping responsibilities and old and complex legislative frameworks and licensing procedures.
- » Collaborating with neighboring countries on infrastructure projects and leveraging its location and ports in the Eastern Mediterranean to become an energy hub for gas and electricity for Southeast Europe
- » Investing in building the necessary infrastructure to achieve its zero-carbon emissions targets.
- » Greece could collaborate with neighboring countries on infrastructure projects needed to achieve its zero-carbon emissions targets and could become an energy hub for gas and electricity for Southeast Europe.
- » The current EU funding cycle (2021-2027) and the recent EU Recovery and Resilience Facility are two important instruments that could help infrastructure developments in the medium term.

## Human Capital

Greece has a skilled workforce, but ten years of economic crisis combined with structural deficits in Greece's education system have stymied development and created a serious mismatch between supply and demand in the labor market. During the economic crisis, more than 400,000 people left the country to seek better employment prospects abroad. Through initiatives like Re-Brain Greece, the country is trying to discourage further emigration. Even so, Greece's population is aging, and there will be a substantial reduction in the number of children in the decades to come. Approximately 75.1 percent of the Greek workforce is employed in the service sector, 14.5 percent in the secondary sector and 10.4 percent in the primary sector. The dominance of the service sector marks a shift away from Greece's agricultural past. Greeks now place a high priority on learning foreign languages and are willing to invest in the education of their children, as well as graduate education. Nevertheless, the educational system's structural weaknesses, as well as the country's difficult economic situation, mean that Greece's high-skilled human capital cannot reach its full potential. The government has made efforts to improve lifelong learning, but skills shortages, especially shortages in digital skills, are a continued challenge. Greece's education budget is also relatively low, despite increases beginning in 2016. Spending on education accounted for 3.9 percent of GDP in 2017, below the EU average of 4.6 percent; and for 8.2 percent of total government expenditure, one of the lowest in the EU.

In the case of health and nutrition, Greece has some of the strongest health outcomes in the EU, despite some concerns

about inequalities and behavioral risks. The financing provision of healthcare was affected by the economic crisis. Driven by reforms within the Economic Adjustment Programs (EAPs), public health expenditure fell by 42.8 percent and health spending per capita by 40 percent. Spending cuts have created crucial gaps in service delivery, especially during the COVID-19 pandemic. Since the economic crisis, steps have been taken to expand access while maintaining lower public expenditures, albeit to limited success. Centralization of the healthcare system is another challenge. During the crisis period, the government created a new health provision organization, which centralized healthcare and disincentivized the expansion of access. More recent reforms have been intended to improve access by transferring powers to regional health authorities, but these efforts have had minimal impact. A more effective network of primary care services with sufficient staffing and equal access across the country remains a central need.

Key human capital issues for Greece include:

- » Addressing structural weaknesses in the education system, including the paucity of permanent teachers, accountability mechanisms and opportunities for teachers' professional development.
- » Decision-making in the education system is highly centralized. In 2017, central authorities were responsible for 52 percent of decisions taken in lower secondary education, two times higher than the OECD average. However, efforts are underway to grant schools more autonomy and enhance local capacity.
- » There are currently disparities in educational outcomes and the quality of education provided for migrant versus native populations and students in rural versus urban areas.
- » Greece will continue to face human capital loss, especially given that its population is aging.
- » Greece's 2010 Digital School strategy (updated in 2016) aimed to digitize primary and secondary education, but Greece still lags in the implementation of digital education due to inadequate infrastructure and skills of teachers.
- » Greece faces a serious skills mismatch problem. Skills shortages are particularly high in the energy and ICT sectors. Adaptation of tertiary education to the needs of students and the labor market remains a challenge.

## Citizenship and Social Policy

The recent economic crisis has affected the quality of democracy in Greece and subsequently social policy and citizens' rights. Austerity measures during the crisis significantly reduced the scale and effectiveness of the national health system and the welfare state. They also included drastic cuts in both current (40-50 percent for certain income brackets) and future pension benefits. The absence of a social safety net, fragmentation of social protection provisions and civil servants' disproportionate salaries and state pensions made the impact of the crisis harsher for Greece's population, increasing both poverty and unemployment, especially for the most vulnerable. Women and young people were hit hardest and were not adequately supported by the state. Other vulnerable groups, including Roma, disabled and unhoused people, as well as migrants and refugees, suffered from insufficiencies as well. Some of these inadequacies were addressed through reforms to the social welfare system, including the provision of universal healthcare and the implementation of a minimum income scheme. While reforms

were welcome, not all of them have been adequate or successful. Universal access to healthcare was a huge achievement, but it has significantly increased the burden on the public health system without a corresponding increase in resources. Some programs for asylum seekers and refugees have been designed and implemented post-2015, including a housing and cash-assistance program for asylum seekers and an integration program for refugees, but they are fragmented, lack continuity and do not fully address most needs of these populations. Similarly, the implementation of Greece's National Integration Strategy for Roma for 2012-2020 is limited. The COVID-19 pandemic highlighted further problems in Greece's social policies. During this period, local governments assumed new responsibilities and emerged as an important player in the provision of social services, compensating for the state's inefficiencies.

Austerity measures adopted over the past decade continue to affect the accessibility and affordability of basic rights and provisions for Greeks. In the WEF's 2020 Global Competitiveness Report, Greece had the lowest score in the category 'Expand eldercare, childcare, and healthcare infrastructure, access and innovation for the benefit of people and the economy'. In terms of social protection, Greece is among the lowest scorers when it comes to combining adequate labor protection with new safety net models. Social policy reforms in recent years have had little positive impact, and small amounts of cash benefits are insufficient to cover basic needs. National Strategies for the integration and social inclusion of the homeless, Roma, migrants and refugees exist but are only partially implemented, if at all.

Greek citizenship rights are protected by and included in the constitution and the criminal code. The 1975 constitution is highly democratic and protects individual liberties and a list of civil, political and social rights. Demonstrations and strikes are frequent, and even though Greece has ranked last in the EU on the Gender Equality Index for approximately a decade, women's rights have progressed over the years. Response to the COVID-19 crisis restricted some personal freedoms, but civil society became more active during the pandemic. New needs and opportunities mobilized the sector, and many new groups emerged aiming to cover people's urgent needs and provide social services to vulnerable groups, including migrants and refugees.

Key citizenship and social policy issues for Greece include:

- » Simplifying the social benefits system. Fairer and more transparent eligibility criteria could also be put in place
- » Creating more incentives for jobseekers to find formal employment, for example by gradually withdrawing financial support schemes when income increases.
- » Removing obstacles to access to education, vocational training and employment for vulnerable groups.
- » Improving the healthcare system by upgrading the hospital system, making prevention services and the primary care system more autonomous, transparent and accessible and by digitizing the sector.

## Disaster Resilience

Disaster management is a core challenge for Greece, which has faced a range of environmental catastrophes, including the Peloponnese and Parnitha mountain fires in the summer of 2007, the destructive floods in Mandra, Attica in 2017-2018, the deadly fires in Mati, Attica in 2018, and the 2021 blazes across Attica and

the island of Euboea. Located at the convergence of the Eurasian and African plates and on the North Anatolian Fault Zone, Greece is also prone to frequent seismic activity. Adequate response to severe natural and environmental disasters and risks is hampered by a lack of governmental structures, coordination, planning, prioritization and early warning systems. Repeated heat waves and wildfires are a harsh reminder of the security threats climate change will pose in Greece's future.

Key disaster resilience issues for Greece include:

- » A weak crisis-management mechanism, including ineffective coordination between first responders and other agencies.
- » Lack of risk awareness, planning and training at the local and regional level, and among the general public.
- » Energy networks threatened by disasters and in urgent need of modernization and reinforcement.
- » An expected increase in the frequency and intensity of fires and other natural and environmental disasters due to climate change.

## Key Issues for Greece's Future

After a decade of sweeping reforms, many of which are incomplete, Greece still faces fundamental constraints. These include (i) the domestic political system and its internal adversarial stance; (ii) an overly complex bureaucracy and regulatory environment that impede the efficient operation of the state and justice system; (iii) high levels of unemployment coupled with emigration and inequality; and (iv) an aging population. The state's capacity to address these constraints, even in the recent reform period, has been limited.

There are five key drivers of potential instability that the country will likely face in the coming years.

- 1. The rise of far-right extremism.** Public gatherings of ultra-nationalist and sympathetic religious groups are increasing, often leading to clashes with the police, street violence and rising nationalism and xenophobia. Golden Dawn leaders are cultivating an audience from prison while new far-right parties gain traction. The current government has tended to look the other way, increasing the stronghold of these groups and creating space for them to hinder various aspects of the reform process while threatening Greece's democratic institutions and the European project.
- 2. Lack of public trust in institutions.** While popular confidence has grown in recent years, legacies from the crisis period remain: data from the OECD indicates that 40 percent of people trust the government, while only 14 percent trust parliament. Continued distrust is driven by real and perceived corruption, a distorted media environment and the government's inability to develop and communicate coherent policies that can achieve results. This driver is linked to the rise of far-right extremism, as the politicization of governance has driven citizens away from traditional centrist parties and into greater political and public instability.
- 3. Climate change and related natural disasters.** Greece is already adversely affected by climate change. Acute negative impacts on the environment and the economy (e.g., agriculture and tourism) are likely to increase. Water issues, extreme temperatures and wildfires are risks that will continue to grow. Despite the 2016 National Adaptation Strategy and the Regional Adaptation Action Plans currently underway, Greece lacks urban climate adaptation planning

and a spatial approach to climate-resilient infrastructure.

- 4. Lack of integration of asylum seekers.** For years, Greece has hosted large numbers of refugees and asylum seekers and withheld adequate integration support and basic services. Recently, it has also undercut access to asylum and protection, while undermining civil society's attempts to fill service gaps. The scarcity of political will in Greece, combined with the EU's externalization of the migration issue to its border regions, means that homelessness, destitution and inequality are poised to increase over the coming years, further galvanizing far-right extremism. Although the labor market stands to benefit from the integration of migrants, there is no such plan, even for those who have been granted asylum. An increasingly elderly and declining population in Greece could benefit from immigrants.
- 5. Inward-looking and uncompetitive economy.** Market reforms remain mostly unimplemented. Since the early 2000s, productivity growth has averaged 0 percent per year, including the boom years through 2009 and the crisis thereafter. The COVID-19 pandemic further decreased productivity. With demographic shifts contributing to a shrinking labor force, employment growth will become negative over time. Productivity growth is weak in part because the public sector limits productivity by hiring people at a faster pace than they contribute to output, creating a market environment that tolerates inefficiency even in the private sector. Market reform and liberalization could increase competition and reduce the cost of basic services to citizens, like internet, mobile and electricity, which are currently among the highest in the EU.
- 6. Energy crisis.** Greece is particularly vulnerable to the current global energy crunch. For seven decades, it relied on lignite to fuel the country's electrification and economic development. Today, lignite combustion is decreasing much more quickly than renewables are increasing. This gap has been bridged with natural gas and imports. The cost of energy has soared, and the government has had to introduce emergency measures. The crisis has increased fossil fuel consumption, jeopardizing renewable energy goals. This crisis is further exacerbated by the 2022 Russian invasion of Ukraine, which severely impacted energy availability and costs in Greece as it did throughout Europe. Without a plan of action, the energy shortage will be a driver of instability.

## Key Opportunities and Critical Tasks

Greece's primary reform plan, the Recovery and Resilience Facility, combines specific reforms with investment in climate objectives and digital transformation. It provides a key opportunity for Greece to modernize its economy and move onto a path of sustainable development and growth. At the same time, the country could do more to root out clientelism and corruption in its political affairs to build back citizen trust and ensure that SMEs benefit from the plan. To foster citizens' trust, the policy development and reform process would benefit from the inclusion of a broader range of stakeholders. Finally, while the green aspirations laid out in the recovery and resilience plan are welcome, there is a massive gap that arises in terms of workforce skilling and the ability of private sector initiatives to meet the green requirements to qualify for loans and grants via the program. Additional critical tasks are outlined below. These critical tasks are preliminary and would need to be verified and further elaborated by stakeholders in the country.

## Tackling the energy crisis and transition to low-carbon energy

While its highly ambitious low-carbon economy goals are notable, they could be paired with specific reforms to stave off the energy poverty crisis. This issue has taken on particular importance given the global energy crisis and its adverse effects in Greece. Even before the current price hikes, 70 percent of the population was unable to maintain adequate heating in their homes. 50.7 percent default on their energy bills, while 29.5 percent dwell in substandard housing. These percentages are nearly double the European averages. While significant progress has been made in phasing out fossil fuels and moving toward renewable energy sources, the Greek energy system is isolated. There are many autonomous island systems that burn oil and which are highly dependent on imports. The government's adoption of ambitious targets is an opportunity to democratize and decentralize the energy system. Specifically, there are opportunities to improve the regulatory environment for energy communities and cooperatives and labor force upskilling. Effectively navigating the energy crisis and getting the transition right is central to Greek security but also could position the country as a clear leader within the region, which is imperative given Greece's continued tensions with Turkey.

## Strengthening citizen inclusion and the social contract

To rebuild the social contract, given the deep distrust in government, Greece could do more to communicate with and include citizens in decisions and policies that affect their lives. Strengthening independent and local authorities, improving legislative procedures and increasing accountability to citizens—while communicating these reforms—can be a part of the government's efforts to improve the public sector's efficiency. During the decade of crisis and reform, successive governments did not prioritize the creation of pathways for citizen inclusion. Addressing binding constraints around the coherence of policy development and patronage structures with politics and governance systems will be key areas for continued reform as the government seeks to communicate reform and build back trust.

## Improving the justice system and equitable application of the rule of law

The first European adjustment programs paid little attention to the rule of law and the judiciary. While some measures have been taken in recent years, including reforming the Code of Civil Procedure, digitizing the justice system and developing alternative means for dispute resolution, much more could be done. The rule of law significantly impacts public trust in government, and the Council of Europe's Group of States against Corruption (GRECO) continues to identify several shortcomings in the country's justice system. To address current problems in these areas, Greece could abolish inflexible and overly formal bureaucratic structures and invest more in technology.

## Reforming the market to strengthen productivity and social mobility

The public and private sectors could offer more opportunities for security, education, and training for employees. 78.3 percent of Greek firms offer their employees no training, either vocational or through external providers. This figure is the highest across the European Union. Female participation in the workforce—as well as that of migrants and disabled people—is very low. As a result,

ongoing market reforms could be more focused on benefiting disadvantaged populations and strengthening social mobility. These efforts could be supported by building a comparative advantage in sectors other than tourism and investing in upskilling, vocational training and continuous education. As part of its National Strategy for Extroversion, the government is seeking to accelerate a shift towards tradable activities and increased openness and foreign direct investment. Yet, little effort has been put into developing a growth strategy to mobilize both the private and public sectors, build on Greece's educated human resources and ensure that growth is distributed to all social classes and regions. In addition to the need to shift further toward export-orientation, productivity increases would help to ensure economic wellbeing over the long term. While production has shifted gradually to tradable sectors, employment has not. Upskilling, greater technology adoption and a reversal in Greece's long-lasting brain drain are key priorities to increase productivity of the market while recognizing the constraints of the country's aging population.

## Increasing digital skills and their adoption in the public and private sector

As part of the market and public sector reforms, improvements in digital skills and the adoption of new technologies by the public sector and businesses remain key priorities. To further this reform area after the COVID-19 pandemic, the Greek authorities undertook a number of complementary measures in several areas, including digital governance, which will enhance the functioning of the public administration and business environment. The launch of several digital tools allowed key services for citizens and businesses to remain largely uninterrupted during the pandemic. However, further structural changes would enable the further adoption of new technologies and innovative production methods.