



Nick Malkoutzis, Yiannis Mouzakis and Marcus Bensasson

# The Recovery Plan in Greece

Setting the course for a climate-neutral  
and digital future?

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### About this publication

Greece was expecting to take another step on the road to recovery in 2020, following its long economic crisis. However, the coronavirus put an abrupt stop to this process. The pandemic has exposed some of the economy's structural "soft spots" as well as stretching Greece's limited budget to the limit. Athens is pinning most of its hopes for a recovery the money due to start rolling in from the EU's Recovery and Resilience Fund (RRF). Greece's RRF plan comprises 18 proposals, with the green transition and the digital transition dominating the programme. This paper looks at how the Greek economy has suffered because of Covid-19, what discussion there has been within the country about the way forward and what issues the government's RRF plan addresses and which ones it overlooks.

### About the authors

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# The Recovery Plan in Greece

## Setting the course for a climate-neutral and digital future?

For Greece, 2020 was meant to be a year of continued economic recovery to provide a stable base from which the country's investment and production models could be adapted to new challenges.

This would take Greece another step further away from the dark days of the long debt crisis that began to envelop the country and its economy around a decade earlier, resulting in three adjustment programmes administered by the European institutions and the International Monetary Fund.

The third programme was completed in the summer of 2018, when the economy started to show the first, tentative signs of recovery from a contraction of about 25 percent during the crisis, when around 1 in 4 Greeks of working age were left without jobs.

This proved too little too late for the left-wing SYRIZA government, which lost the national elections a year later in a landslide victory for centre-right New Democracy. The new prime minister, Kyriakos Mitsotakis, promised a menu of tax cuts and business-friendly reforms to attract investment and boost Greece's recovery.

During its first months in power, the new government passed legislation lowering income, corporate and other taxes. It also passed a new development law, arguing that it would make Greece a more attractive destination for investment by, among other things, simplifying the licencing procedure and fast-tracking projects deemed to be of "strategic" importance to the economy.

Political opponents accused the government of being too lax with some of the criteria in the new legislation, warning that the law might compromise environmental and other standards. Concern also centred on the labour market deregulation measures included in the package. Critics also suggested that New Democracy tailored the measures to provide the economy with a quick injection of capital via traditional, but outdated, sectors such as construction and tourism, rather than incentivising more long-term and sustainable investments.

The argument became slightly academic, however, when the coronavirus hit in early 2020, halting the economic recovery and putting on hold the structural reforms the ruling centre-right party had targeted.

Towards the end of November 2020, and amid a second national lockdown prompted by the latest coronavirus wave in Greece, Finance Minister Christos Staikouras tabled the 2021 budget<sup>1</sup> in Parliament. It sees GDP contracting by 10.5 pct in 2020, up from 8.2 pct in the draft budget presented in October and 5.8 percentage points more than the Greek authorities projected in their baseline scenario in April. Investment is projected to shrink by almost 11 pct, and exports by more than 30 pct.

Based on these figures, 2020 will be a devastating year for Greece in economic terms, even though, until November, the country had fared better than many other European Union member states in handling the public health threat from Covid-19. During November 2020, the number of deaths linked to the virus nearly doubled, to 2,500, despite a second national lockdown starting on November 7.

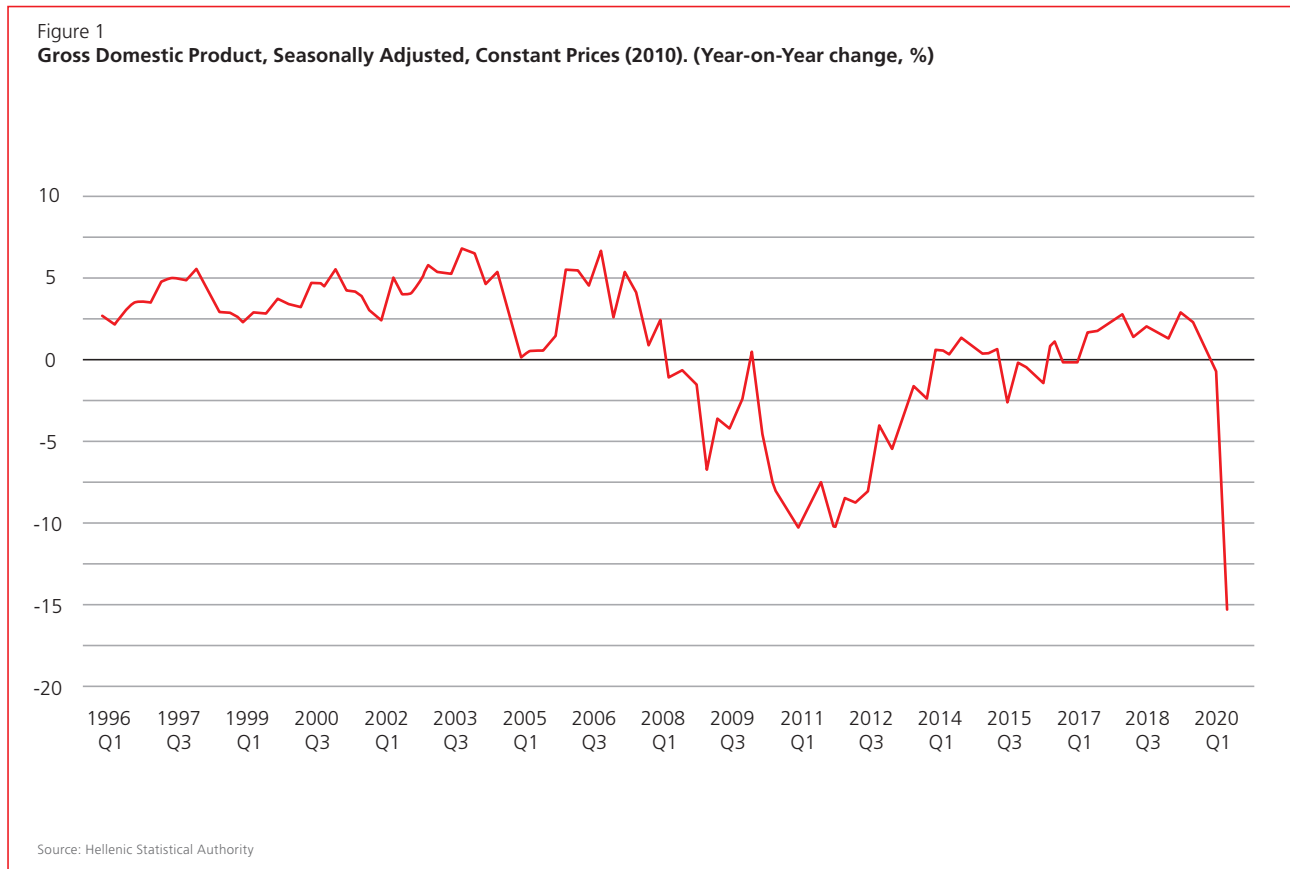
The pandemic has stalled the recovery momentum built up over previous years (Greek GDP was expected to rise by more than 2 pct before the coronavirus struck), halted the job creation that was reducing unemployment – albeit with many part-time positions – and brought back the destabilising sense of uncertainty that was prevalent during the crisis Greece went through from 2010 onwards.

The budget also sets out the 62 fiscal interventions totalling more than 31 billion euros to mitigate the economic consequences of the pandemic. As a result, after years of running primary surpluses as part of its radical fiscal adjustment during the EU-IMF bailouts, Greece is on course to produce a primary deficit of 11.14 billion euros, or 6.8 pct of GDP.

## COVID-19 IMPACT

As in the rest of the Balkans, the pandemic reached Greece later than other parts of Europe, and the restrictive measures to contain the spread were introduced from around mid-March.

<sup>1</sup> <https://www.minfin.gr/documents/20182/14940417/%CE%95%CE%99%CE%A3%CE%97%CE%93%CE%97%CE%A4%CE%99%CE%9A%CE%97+%CE%95%CE%9A%CE%98%CE%95%CE%A3%CE%97+2021.pdf/9df8e59d-dc88-47f6-9285-b7edfc69e220>



The full effect of the first lockdown, which lasted throughout April and was lifted on May 5, was reflected in the second quarter of the year, when GDP fell by 15.2 pct YoY.

Exports of goods and services dropped by nearly a third (32.1 pct YoY), household spending shrunk by 11.6 pct and investments fell by 10.3 pct.

Overall, the Greek economy dropped by almost 8 pct during the first half of the year, with the second quarter's economic activity of 41.27 billion euros being lower than anything seen even during the years of the country's debt crisis.

As has been observed by various international organisations and institutions that monitor the Greek economy, the pandemic exposed some structural soft spots, the high dependence of services exports and exports overall on tourism, and the high share of economic activity generated by household consumption.

In 2019, travel receipts accounted for 45 pct of total revenues in Greece's balance of payments. Receipts from shipping accounted for almost 37 pct. During the second quarter of 2020, travel receipts fell by 97 pct to just 140 million euros. Shipping revenues also dropped by more than 9 pct YoY.

Given the scale and influence of those sectors, services receipts dropped by 53 pct and the overall services balance of payments in the second quarter shrank by more than 80 pct.

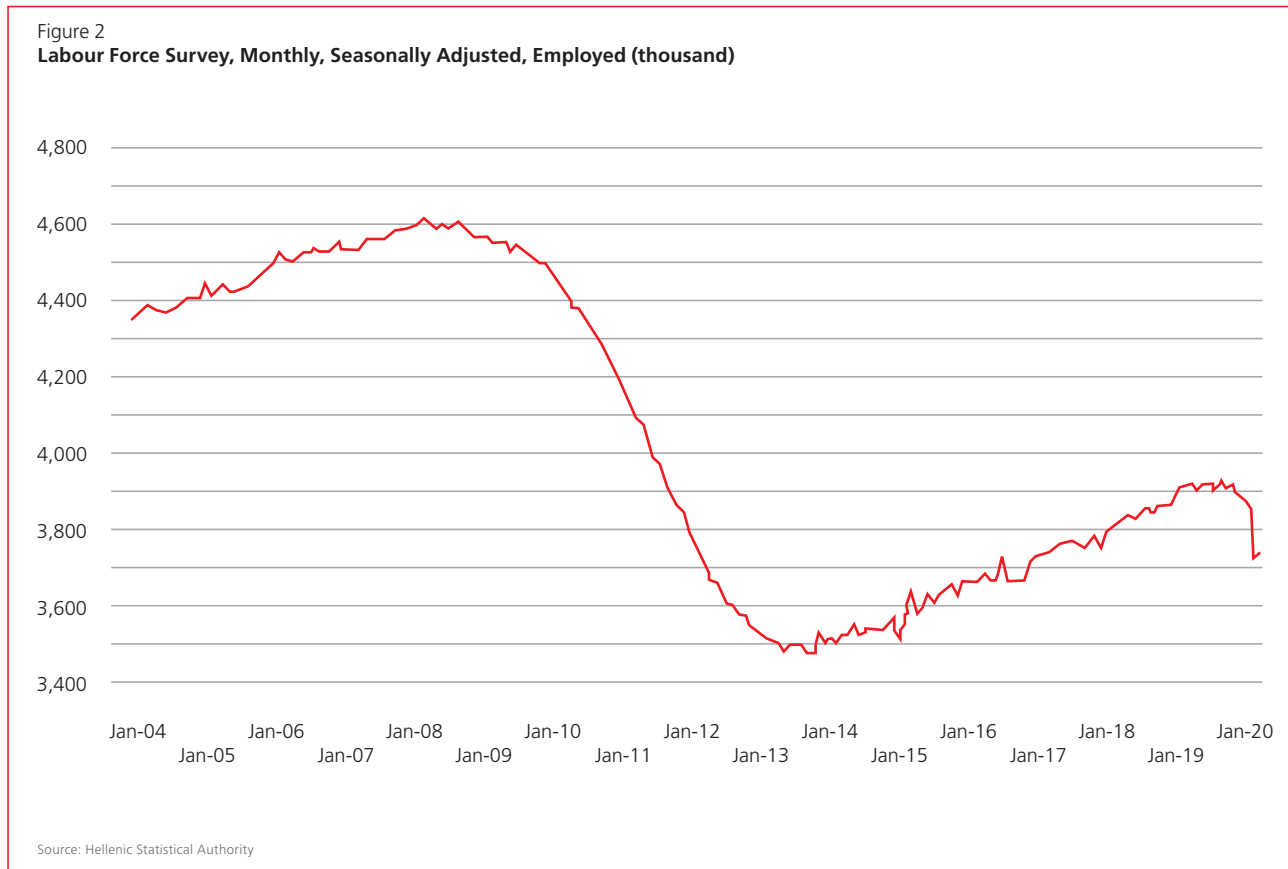
The authorities had hoped that a decent tourism season, under the difficult circumstances, could soften the economic blow, and they based their lockdown phase-out strategy on a timeline whereby tourism would open gradually from June and fully by mid-July.

However, it looks like no more than 3.5 billion euros in travel receipts came in 2020, compared to the 8 billion initially targeted. The task was made more difficult by the fact that Greece was gripped by a second pandemic wave starting in August, and the rest of Europe saw cases spike from mid-September.

The impact of the first lockdown was felt across the board in the economy and was reflected in all key macro variables and soft sentiment data.

Due to statistical methodology issues with employees that have been placed on suspended contracts, unemployment rose to only 18.3 pct in June, from 16 pct in February. But the number of employed has dropped by approximately 200,000, with an equivalent rise in the number of inactive, as employees who were not actively looking for a job while in suspension of contract were not considered part of the labour force.

The pandemic has cascaded onto the budget and fiscal performance, as state revenues dropped following the collapse in economic activity and the authorities had to step in at



various stages as the pandemic unfolded to support households and struggling businesses.

In the draft budget submitted to Parliament at the beginning of October, the Finance Ministry outlined all the interventions to support the economy.

The government's 62 interventions include the reduction of social security contributions by 3 percentage points, the suspension of the "solidarity levy" on incomes, subsidised social insurance for the hiring of long-term unemployed, and subsidisation of mortgage payments for households unable to service their housing loans.

## RRF HOPES

For 2021, the Finance Ministry anticipates that the EU Recovery and Resilience Fund will play a significant role in economic recovery, adding 2.1 percentage points to growth, taking it up to 4.8 pct (compared to 7.5 pct in October's draft budget), in what Greek authorities hope will be a V-shaped recovery.

The Finance Ministry expects Greece will receive almost 4 billion euros from the RRF – 2.64 billion in the form of grants and 1.27 billion in loans. Another 1.6 billion euros is also due to flow from REACT-EU, taking total income from the EU to 5.51 billion euros.

This is expected to boost the economy and lead to a rise in investment spending of more than 23 pct, while exports are seen soaring by 22.5 pct. Nevertheless, the unemployment rate is expected to increase this year to 17.9 pct.

Greek Prime Minister Kyriakos Mitsotakis described the agreement reached in Brussels in July over the Multiannual Financial Framework (MFF) and the Next Generation EU recovery package as a "reasonable and fair compromise" that provides Greece with a "great opportunity".

The breakdown for Greece will give Athens access to nearly 40 billion euros from the MFF,<sup>2</sup> which runs between 2021 and 2027, and up to 16.4 billion euros in grants.<sup>3</sup> Seventy percent of the grants, 12.6 billion euros, will be available in 2021 and 2022. The remaining 30 percent will be released by the end of 2023. This makes Greece one of the top beneficiaries when grants are measured as a percentage of national GDP.

If it wants to, the government will also be able to tap around 12 billion euros in low-interest loans, which represents the 6.8 percent of annual GDP limit agreed for all member states. The entire package for Greece comes to nearly 70 billion euros, over a third of the country's annual GDP.

<sup>2</sup> [https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027\\_en](https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027_en)

<sup>3</sup> [https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe/pillars-next-generation-eu\\_en](https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe/pillars-next-generation-eu_en)

## NATIONAL RECOVERY PLAN

Greece came into the crisis with a fresh government that was already determined alter the country's economic course when the pandemic struck. Consequently, its response to the crisis was rolled into that effort, which bore the hallmarks of the administration's economically liberal instincts. Rather than signalling a paradigm change in Greek discourse over the role of the state, positions have aligned with those familiar from the bailout decade.

In January 2020, PM Mitsotakis appointed the Nobel-winning Cypriot economist Christopher Pissarides to head a commission tasked with drawing up a new national growth plan for Greece's economy. At the time of the appointment, nobody could have known that the commission's work would become entangled with a national recovery plan from what was arguably the greatest shock to the economy since the Second World War.

But through spring and early summer – in the build-up to the European Council agreement on the recovery fund plan – the government made it clear that the Pissarides Commission's work would form the blueprint for how Greece would use the funds coming its way. The draft proposal for use of RRF funds that Greece submitted to the European Commission in October 2020 is heavily informed by the Pissarides Commission's work, making extensive reference to it.

Greece's RRF plan comprises 18 proposals that are split between four broad categories: green transition; digital transition; employment, skills and social cohesion; private investment and economic and institutional transformation.<sup>4</sup>

Of the 16.4 billion euros in RRF grants, 6.2 billion euros – or 38 pct of the total – is earmarked for green transition, just above the required minimum. Digital transition gets 13 pct of the total, though digital objectives are also included in proposals from the other three areas, ensuring the 20 pct required digital objective is met. The other two categories each get about a quarter of the available grants.

A centrepiece of the proposal is to leverage the 12.6 billion euros of available loans from the RRF by requiring that almost all of it also includes commercial bank lending. With reports suggesting a ratio of as much as 2:1 of commercial to RRF loans, this could mean potentially harnessing an additional 25 billion euros of financing for the economic recovery.

## GREEN TRANSITION

The funds will help flesh out the government's energy plan, which was billed as a "Green New Deal" when the government announced it near the end of 2019. Energy Minister Kostis Hatzidakis said in September that Greece will spend

5 billion euros – in tax incentives, subsidies and local infrastructure projects – to achieve the plan's goal of completely phasing out coal from power generation by 2028. Coal was responsible for a third of Greece's electricity generation in 2018.

Aside from the 5 billion euros needed to manage the phase-out of lignite from Greece's energy mix, the Environment and Energy Ministry has outlined an additional six actions that would be financed by the EU Recovery Fund:

- Renovate 60,000 buildings a year to make them more energy efficient
- Build renewable energy plants and electrical interconnectors, linking the islands with the mainland
- Electrify transport, including the building of charging infrastructure and boosting entrepreneurship in the field of batteries and chargers
- Protect nature, upgrade protected areas and design a national plan for reforestation
- Modernise urban and spatial planning, with the formation of local urban plans throughout the country
- Build 17 new waste treatment plants

These priorities were included in the RRF proposal.

## ECONOMIC MODERNISATION

A key target of the proposal is the modernisation and improved resilience of key economic sectors, which are identified as tourism, culture, agriculture, manufacturing and aquaculture, as well as national transportation and logistics infrastructure.

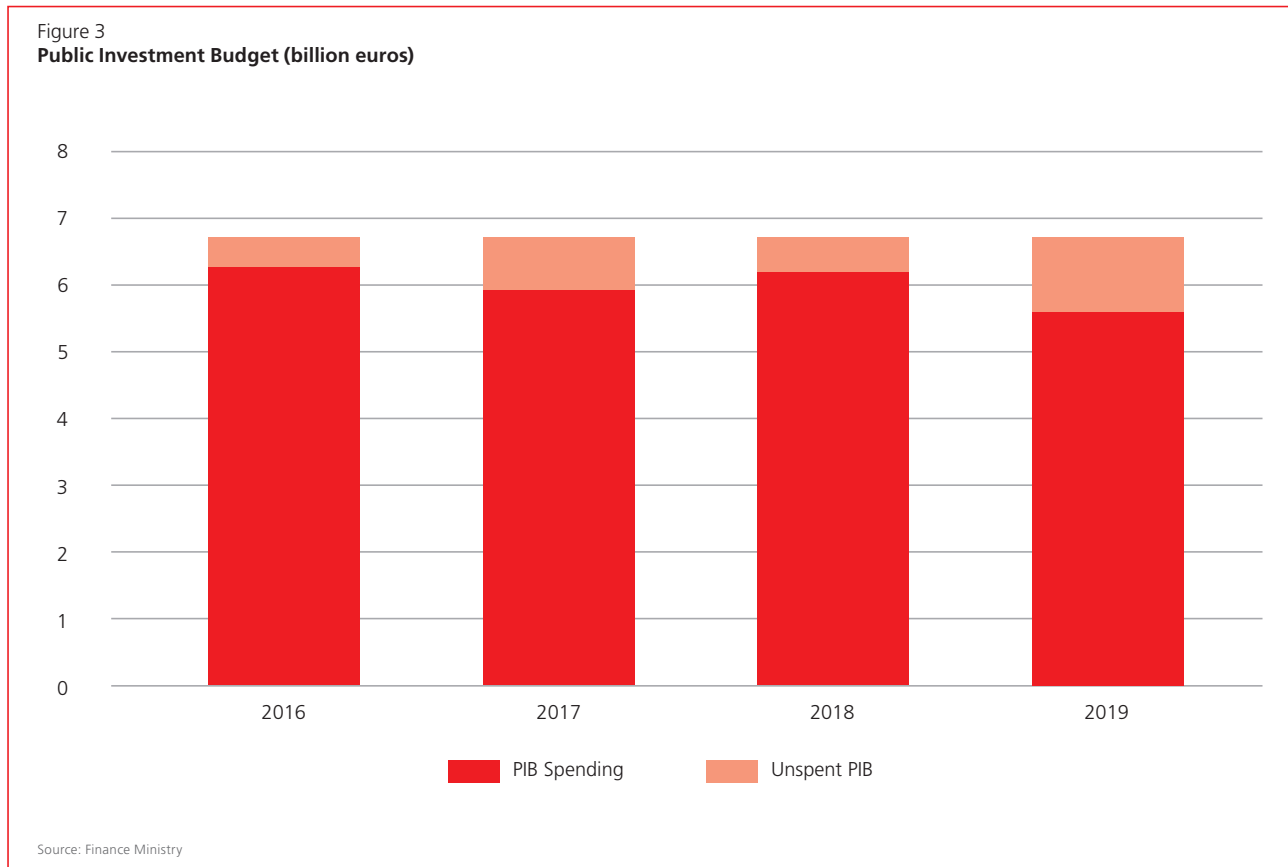
Industry bodies for tourism, which is so central to the Greek economy and has been hit so hard in the current crisis, lobbied to ensure they get their share of the recovery funds. In an interview with Kathimerini, the head of the Institute of the Greek Tourism Confederation said that, in their request for financing, they would focus on energy upgrades and digital transformation projects, as well as improved public infrastructure to support the sector.<sup>5</sup>

The proposal document itself is light on specific details of projects to modernise the tourism sector – as it is on the details of specific projects generally – but it mentions the "systematic promotion of thematic and alternative forms such as mountain, religious and maritime tourism to diversify the Greek touristic portfolio, reduce seasonality and increase revenues along with accessible infrastructure."

Infrastructure development will be where much of the pressure will come to bear to produce a pipeline of shovel-ready infrastructure projects that will provide an immediate economic stimulus. While the proposal document itself may not list too many specific projects, at a press conference an-

<sup>4</sup> <http://www.opengov.gr/minfin/wp-content/uploads/downloads/2020/11/Greece-RRP-EN-1.pdf>

<sup>5</sup> <https://www.ekathimerini.com/255659/article/ekathimerini/business/tourism-wants-funding-share>



nouncing the plan, Mitsotakis mentioned the E65 and northern Crete motorways, as well as the full digitalisation of the Independent Authority for Public Revenue, among other things.<sup>6</sup> Building out a national 5G network is another priority.

The main hurdle the government has to overcome is the state's poor record – even before the current crisis – in spending funds available for public investment. General government investment last year was 1.1 pct of GDP less than initially planned. PwC estimates that in the past decade Greece has spent 0.7 percentage points of GDP less than the European average on infrastructure investment, amounting to a gap of 1.4 billion euros per year.<sup>7</sup>

The European Commission has identified this as a problem, highlighting it in recent reports that form part of Greece's post-bailout program monitoring.<sup>8</sup> To rectify this issue, the government is preparing a Strategic Project Pipeline, an independent unit to prepare infrastructure investment projects with a budget of over 10 billion euros.

<sup>6</sup> <https://www.ekathimerini.com/259378/article/ekathimerini/business/greece-submits-game-changing-plan-for-eu-resources>

<sup>7</sup> <https://www.pwc.com/gr/en/publications/greek-thought-leadership/infrastructure-projects-greece-2018.html>

<sup>8</sup> [https://ec.europa.eu/info/publications/enhanced-surveillance-report-greece-september-2020\\_en](https://ec.europa.eu/info/publications/enhanced-surveillance-report-greece-september-2020_en)

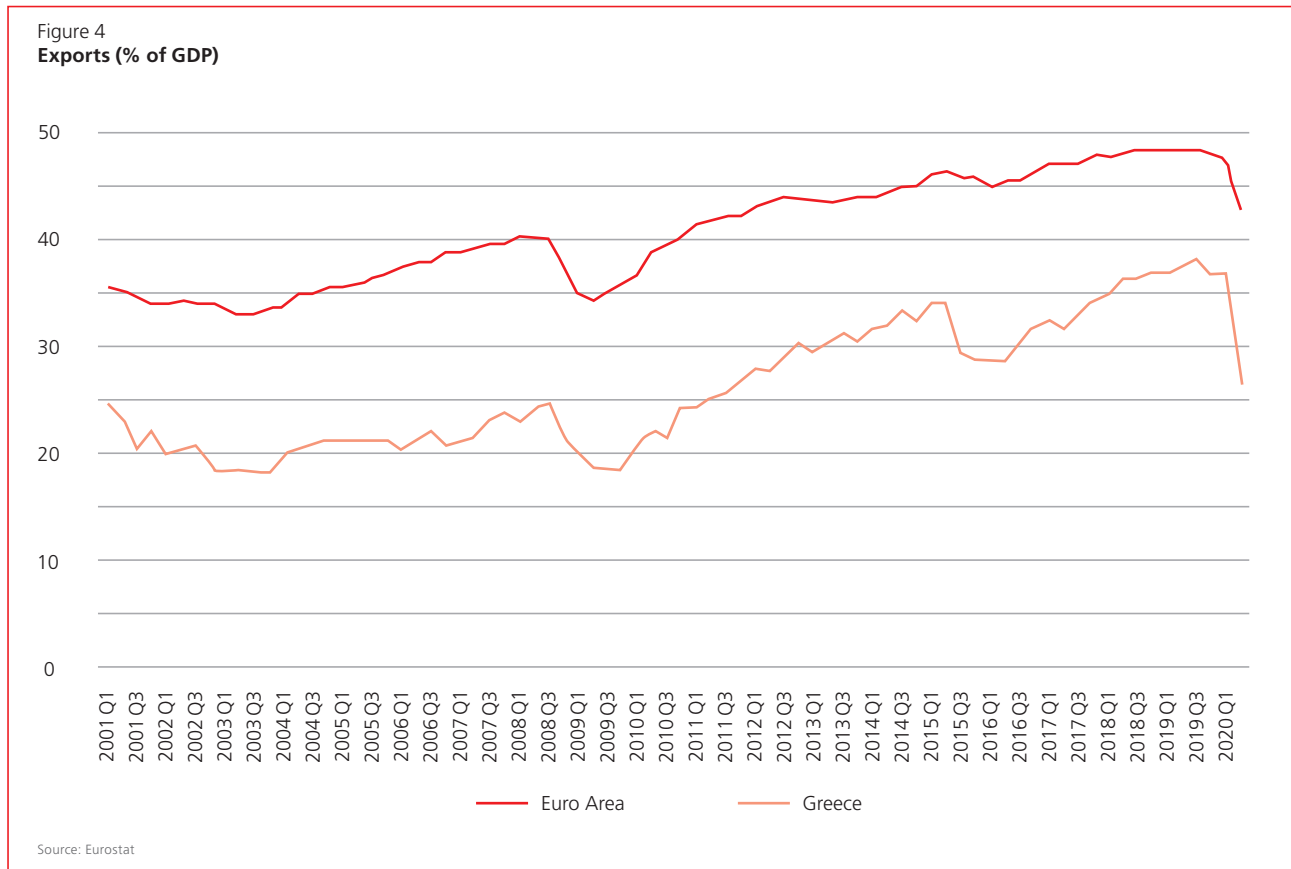
So far, the Commission's response to the government's plans are encouraging for Mitsotakis. At a recent conference, European officials who played important roles during the country's bailout years expressed agreement with the Pissarides report, welcoming it as a reform blueprint. At the same time, they also expressed concerns about the country's capacity to absorb the available funds.<sup>9</sup>

## PISSARIDES COMMISSION REPORT

The Pissarides Commission's report, which was published in draft form in August 2020, before the final version was released in November 2020, furnishes the government with a vision statement for how it plans to transform the country's economy and provides the roadmap from which the RRF proposal navigates.

The draft was the product of a committee comprised mostly of academic economists, many based outside Greece, without a wide consultation bringing in input from social actors. Trade unions were not involved in the process and will probably form part of the opposition to government attempts to implement specific recommendations from the report.

<sup>9</sup> <https://www.ekathimerini.com/257009/article/ekathimerini/business/reform-blueprint-gets-eu-nod>



Two aspects of the Pissarides report in particular drew immediate fire from Greece’s leftist opposition when the first draft was released: a perceived attack on small and medium-sized enterprises, and changes to the country’s pension system.

The report states that the central goal for the Greek economy over the next decade is to raise incomes – in a socially inclusive and environmentally sustainable manner – by raising productivity and export orientation. A measure of this transformation is the increase in the share of exports and investment in GDP towards average levels of other small, open EU economies.

Pre-conditions for this to happen include increasing the number of medium and large firms in the economy, strengthening salaried employment, reducing self-employment and the grey economy, and increasing household savings, which should be channelled into increased corporate investment.

The Commission’s report lays out a series of horizontal structural reforms to achieve these goals. The recommendations are wide-ranging and include reducing the burden on salaried work through tax cuts and reduced social security contributions, bolstering the private sector-capitalized component of pension provision, and a radical overhaul of training of the unemployed, with “improved targeting of social benefits so they don’t operate as a disincentive to work.”

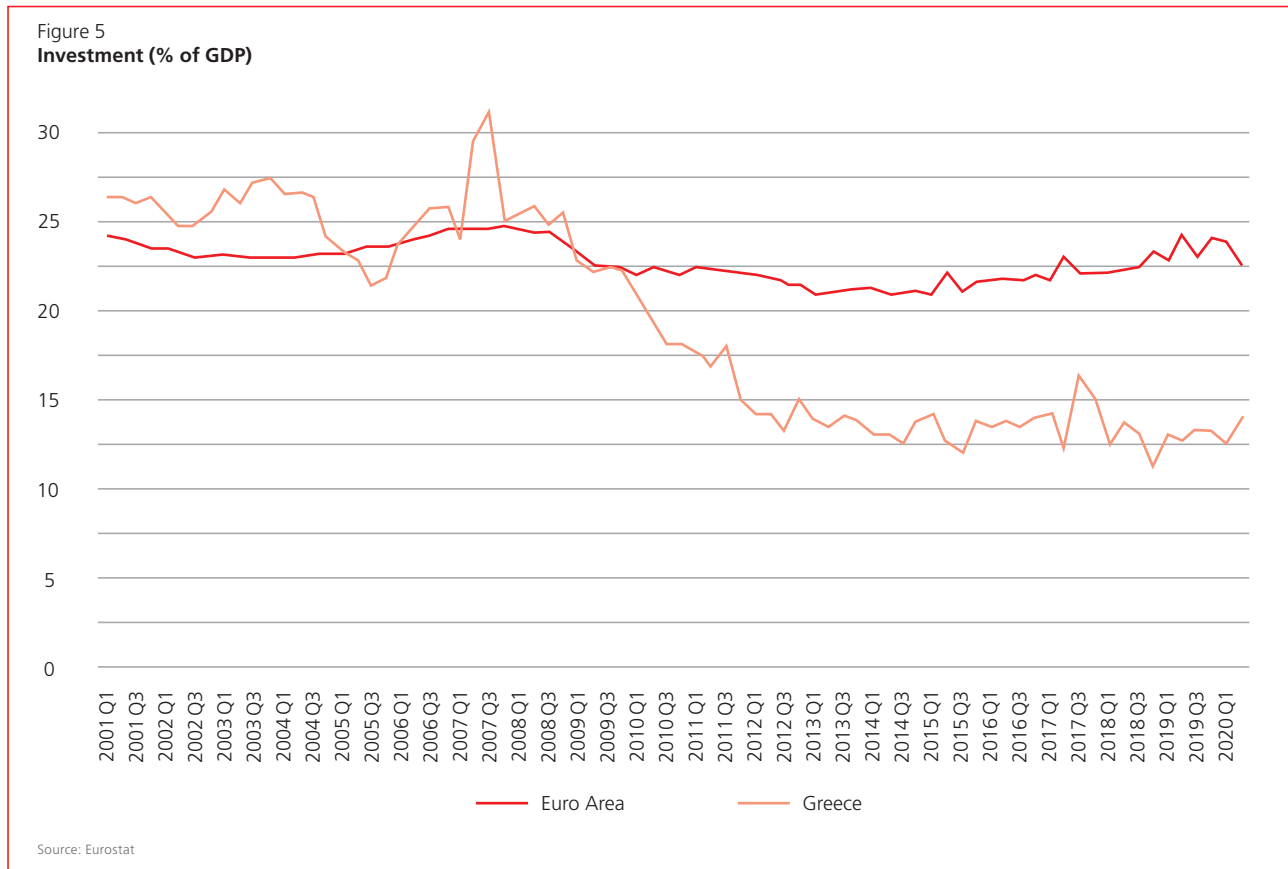
The commission recommends policies for increasing women’s participation in the workforce and eliminating discrimination, and for improving public administration and functioning of the justice system, with a heavy emphasis on thorough digitalisation of the economy and services.

The report also contains recommendations for infrastructure investment and policies to facilitate the green energy transition and bring down the country’s carbon emissions

When the report is taken together with Mitsotakis’s economic policy announcements at the Thessaloniki International Fair – with tax cuts as the central plank – it is clear that granting incentives through tax breaks and reducing the fiscal burden on incomes will be a key pillar of the government’s approach to economic recovery from the Covid-19 recession. An example of this would be the use the Next Generation EU grants and loans to finance tax incentives for the creation of larger companies, something the Pissarides plan highlighted was needed to capture a larger share of export markets.<sup>10</sup>

<sup>10</sup> <https://www.ekathimerini.com/256463/article/ekathimerini/business/incentives-to-be-introduced-for-larger-firms>





## WWF BLUEPRINT

One group to engage constructively in social dialogue over the national recovery plan was WWF Greece.

In its 36-page submission to the Pissarides Commission during the report's draft consultation phase, the NGO noted that while the growth plan acknowledges that achieving climate and ecological goals requires profound reform of existing strategies, this key point is not integrated enough into the rest of the report. The environmental group argued that reducing the economy's ecological footprint should be the central plank of any growth strategy, which all other goals and policies must align with.

In October, the organisation released its own blueprint for a green recovery in Greece, built on the following five principles: maximising recovery potential; contributing to transformational goals; accounting for wider socio-economic outcomes, beyond strict employment and economic outcomes; do no harm; and a just stimulus for all.<sup>11</sup>

In the blueprint, WWF outlines 10 investment programmes, including clean energy, increasing public transport by 25 percent over three years and doubling organic farmland.

These programmes would require 8.2 billion euros from the Recovery Fund and create 120,000 jobs, according to the organisation.

## CRITICISMS AND CONCLUSIONS

A main criticism that can be made of the national growth strategy is that it is shaping up as essentially the plan the government would have rolled out anyway – even without the Covid-19 pandemic. The main difference, of course, is that there is now more money available to throw into the programme, making it easier to finance energy plans and the transition to a capitalized component in pension provision.

In its defence, the government can respond that it will implement the program of economic reforms on which it ran in last year's elections. The problems the Pissarides Commission's report identifies – such as low productivity and export-orientation, low female participation in the workforce, the heavy tax burden on incomes, and a slow-moving justice system that disappoints citizens and impedes investment – are real problems that Greece needs to address. The heavy emphasis on digitalisation of Greek public services and the economy is welcome.

Yet one thing that the plan pays insufficient attention to is specific fissures that the pandemic exposed. For example,

<sup>11</sup> [http://contentarchive.wwf.gr/images/pdfs/EMBARGOED\\_06-10-2020\\_WWF\\_Greece\\_Green%20Recovery%20Report\\_ENG.pdf](http://contentarchive.wwf.gr/images/pdfs/EMBARGOED_06-10-2020_WWF_Greece_Green%20Recovery%20Report_ENG.pdf)

the Pissarides report's section on education puts great emphasis on "human capital" and skills acquisition, particularly in science, technology, engineering and mathematics, but makes only one fleeting reference to Covid-19, pointing out that the pandemic exposed the need for improved digitalisation of teaching. It does not address a topic that generated controversy over the summer and brought the government into conflict with teachers and students: the reopening of schools with overcrowded classrooms, which is preventing learning from happening in a safe environment.

Overall, the government has presented a technocratic vision for Greece's national recovery. While the programme does promise money for social programs, health and education, the guiding philosophy behind its remedies for economic inequality and improving social justice is that liberal economic reforms will lead to increased prosperity and incomes – with a rising tide lifting all boats.

It is at least inclusive in this vision, arguing for greater integration of immigrants into Greece's economy and education system, better support for disabled persons and setting goals for increased female participation in the workforce.

The polarisation of the political debate means there is little prospect of social dialogue helping to achieve a broad national consensus on a transformative plan for the economy. Instead, the government's economic response to the current crisis has become another partisan topic, and any future change in government – though currently a distant prospect, given the relatively newly elected incumbent's popularity – will probably bring new priorities and a new growth plan.

On its own terms, the plan can be judged by whether it increases the country's exports and investments, and whether these changes increase the incomes of Greek households. It should also be judged in terms of whether it can facilitate Greece's transition to a net-zero carbon economy – a pressing issue that it does at least nominally seek to address.

But as the WWF report points out, the plan's environmental and social objectives seem more like afterthoughts than integral guiding principles of the country's recovery strategy. As risks stemming from the global ecological emergency materialise in the years to come, they will test the robustness of the government's plans.

## **Friedrich-Ebert-Stiftung**

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FES promotes the advancement of social democracy, in particular by:

- political educational work to strengthen civil society;
- think tanks;
- international cooperation with our international network of offices in more than 100 countries;
- support for talented young people;
- maintaining the collective memory of social democracy with archives, libraries and more.

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# EUROPA

## Recovery strategies in Europe

The restrictions imposed to combat the COVID-19 pandemic have led to a pronounced drop in production, a steep rise in unemployment and public debt. As a result, profound social distortions have arisen. Further, the pandemic has also revealed the strong dependence of Europe's economy from the production of vital products beyond the continent. Accordingly, national governments as the EU have had to devise wide-ranging programmes to support and revive the economy.

The development of these "recovery" programmes is taking place at a point in time when the European economies are at a crossroads. They are faced with meeting the immediate challenges stemming from social and ecological transformation and digitalization. As a result, there is significant pressure to ensure that the measures to implement economic revival do not lead to a restructure of the pre-pandemic status quo. Instead the countries should seize the opportunity of massive public spending programmes to start the transformation of the economy and society towards climate neutrality and social equality.

A series of reports from several European countries analyse their respective national recovery plans and assess them in view of meeting the complex challenges. A synopsis offers a comparative perspective by interpreting and classifying the events and individual measures introduced in the individual countries. The aim is to develop policy recommendations that not only meet the long-term structural challenges faced by the EU-member states, but also to combat the immediate effects of the pandemic.