Growth Drivers for the Greek Economy

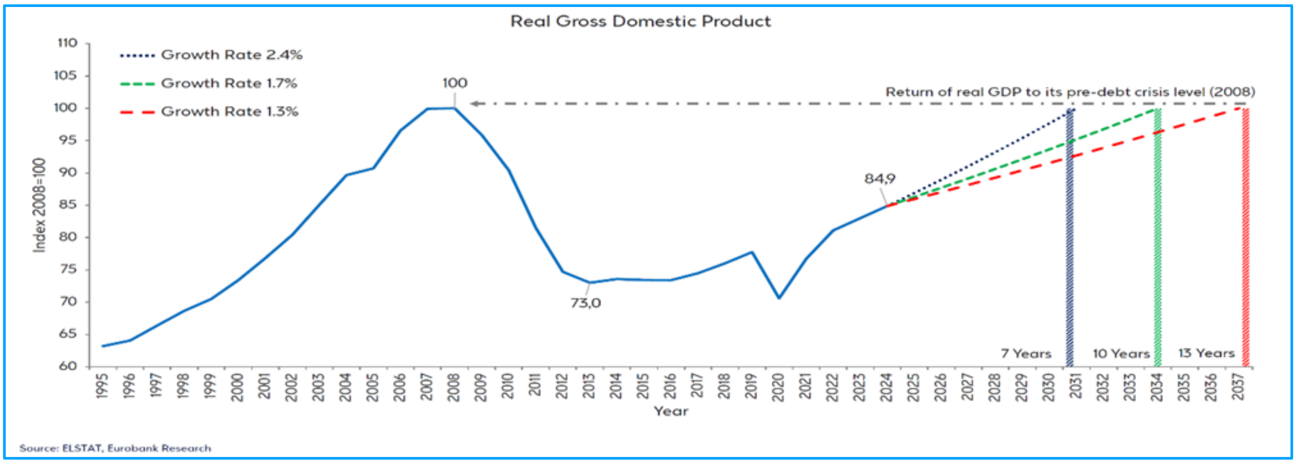
Blog for the Hellenic Observatory Centre, May 2025

Fifteen years after the sovereign debt crisis, Greece is exhibiting signs of a gradual and sustained recovery. Real GDP growth has exceeded the euro area average in recent years, and investor sentiment has strengthened accordingly. However, these improvements mask persistent structural vulnerabilities—specifically, subdued productivity growth, limited export dynamism, and a continued reliance on domestic consumption. The recovery must be viewed in the context of the severe contraction experienced during the crisis, which saw the economy shrink by over 25 per cent. Returning to pre-crisis output levels, particularly those recorded in 2008, will require a comprehensive policy agenda focused on fostering long-term, inclusive, and productivity-led growth.

At a recent panel hosted by the LSE Hellenic Observatory, the chief economists of Greece's four systemic banks — Eurobank, Alpha Bank, Piraeus Bank, and the National Bank of Greece — explored the risks and opportunities shaping the country's economic future. This blog highlights five interconnected themes (drivers) that capture the discussion's key messages and can help shape Greece's next chapter of growth.

Those **five drivers** should be considered in the context of upcoming economic and structural challenges, most of which are not unique to the Greek case. Those include energy transition, labour shortages, SME modernisation, loan guarantees withdrawal, and global trade tensions.

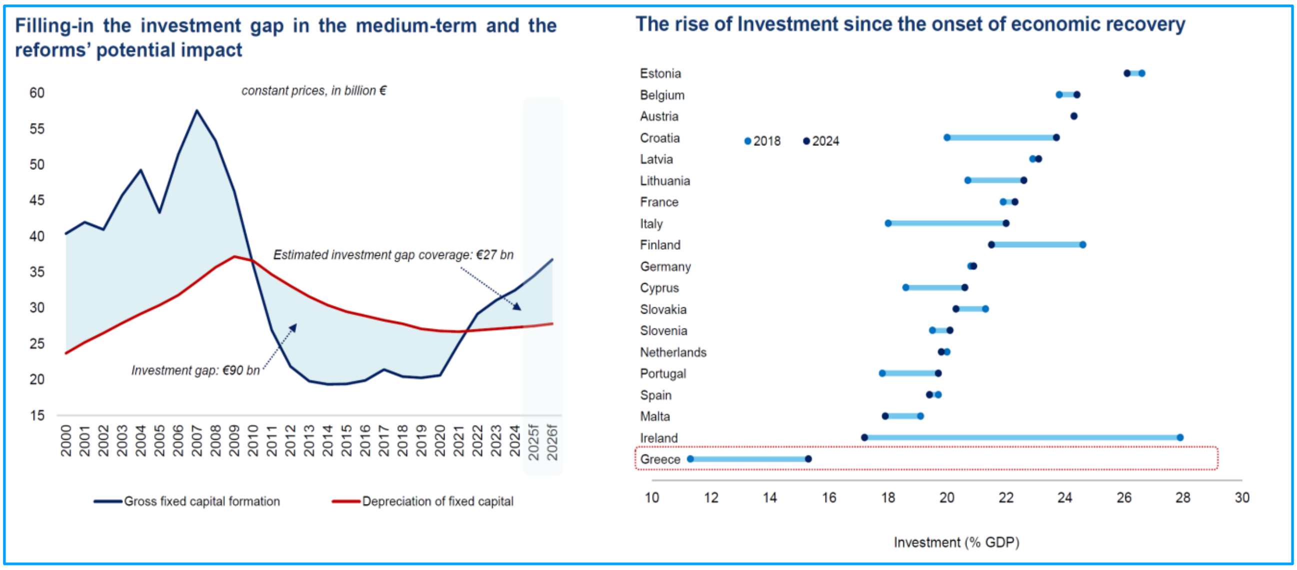
Figure 1: Greece has regained the 44.0% of its real GDP losses during the debt crisis; high growth rates above potential are required to return to its pre-debt crisis peak in less than a decade



1. Investment

Greece has made progress since the crisis, but investment remains the weakest link. Gross fixed capital formation has increased, helped by EU funding, but it still sits among the lowest in the EU.

Figure 2: Stimulating Business Investment Again



The composition of investment is also important. While real estate's share has declined since the pre-crisis era, it remains the fastest-growing component. Productive investment in knowledge and technology-intensive sectors — such as ICT, green energy, advanced manufacturing, and logistics — remains inadequate.

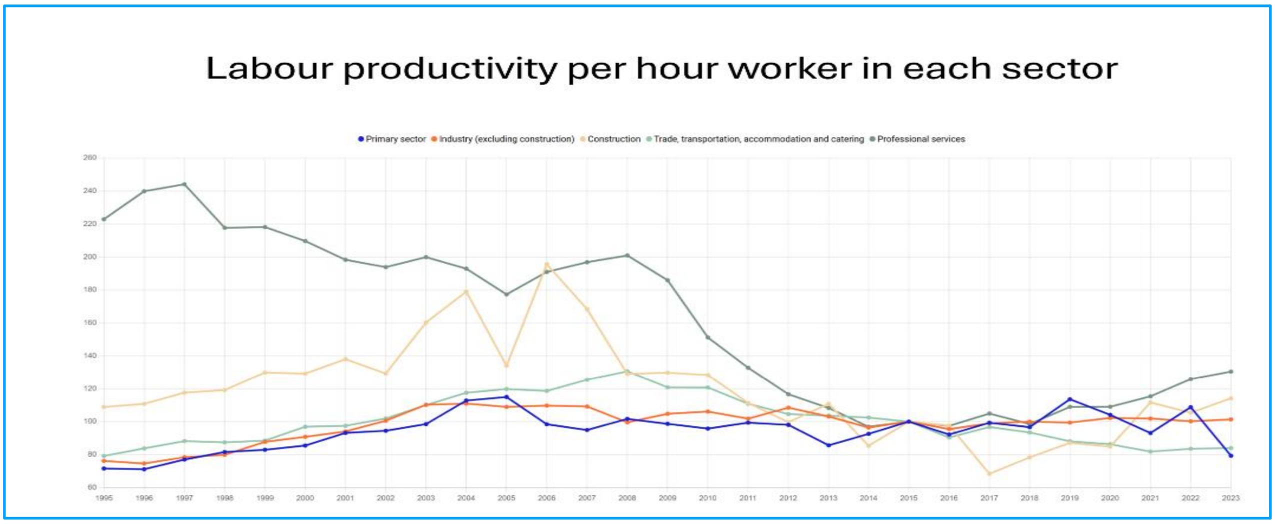
Foreign direct investment tells a similar story: while increasing, it is often directed at non-productive sectors such as real estate or loan servicing, with limited long-term impact.

Policy recommendation: prioritise high-value, innovation driven investment

2. Productivity

While fixed capital investment is essential to long-term growth, its quality is equally critical. Evidence suggests Greece needs more strategic investment, particularly in digitalisation and productive value chains, especially for SMEs, to improve productivity.

Figure 3: Labour productivity per hour worker in each sector



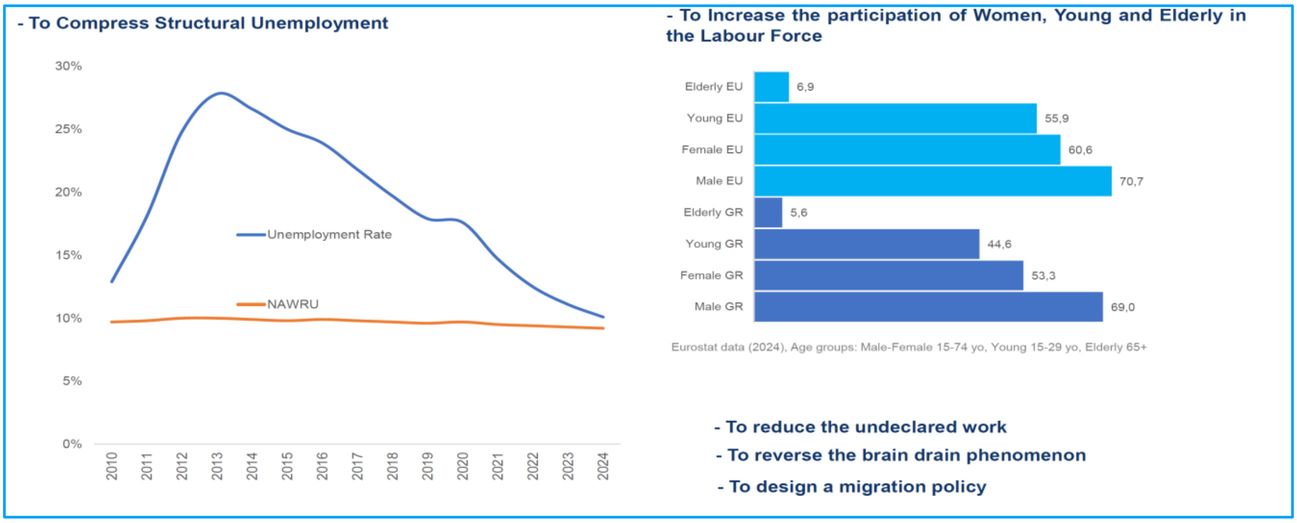
Labour productivity remains well below the EU average. Addressing this gap is vital for sustained competitiveness. Though corporate lending conditions have improved, financing for high-risk or innovative ventures, such as fintech, remains constrained. Financial literacy is limited, and many firms operate below optimal levels due to outdated practices and weak management structures. In addition, firm mobility remains constrained. The ability of firms to enter, exit, expand, or pivot is vital for innovation and market dynamism. Greece's relatively rigid industrial structure hampers its capacity to integrate into global value chains or adopt new technologies.

Policy recommendation: support innovation, modernisation of SMEs and firm mobility

3. Human Capital

Despite long working hours and recent progress in reducing unemployment, Greece has one of the lowest employment rates in the eurozone. Youth and female labour force participation are below potential, while ageing and emigration further restrict supply. At the same time, many sectors report acute labour shortages — especially in services, tourism, agriculture, and construction. This paradox points to deeper mismatches in skills, mobility, and wage structures.

Figure 4: Labour market challenges: Increasing the employment ratio



Addressing these issues requires a coordinated policy response, including reskilling and upskilling programmes, incentives for female and youth employment, lower non-wage labour costs, and a coherent immigration policy to attract needed workers.

Policy recommendation: comprehensive labour strategy with a focus on reskilling and inclusion

4. Exports and Resilience

Despite gains in export performance, Greece continues to run a significant current account deficit. This has happened because export growth has been accompanied by rising imports, often related to energy and capital goods.

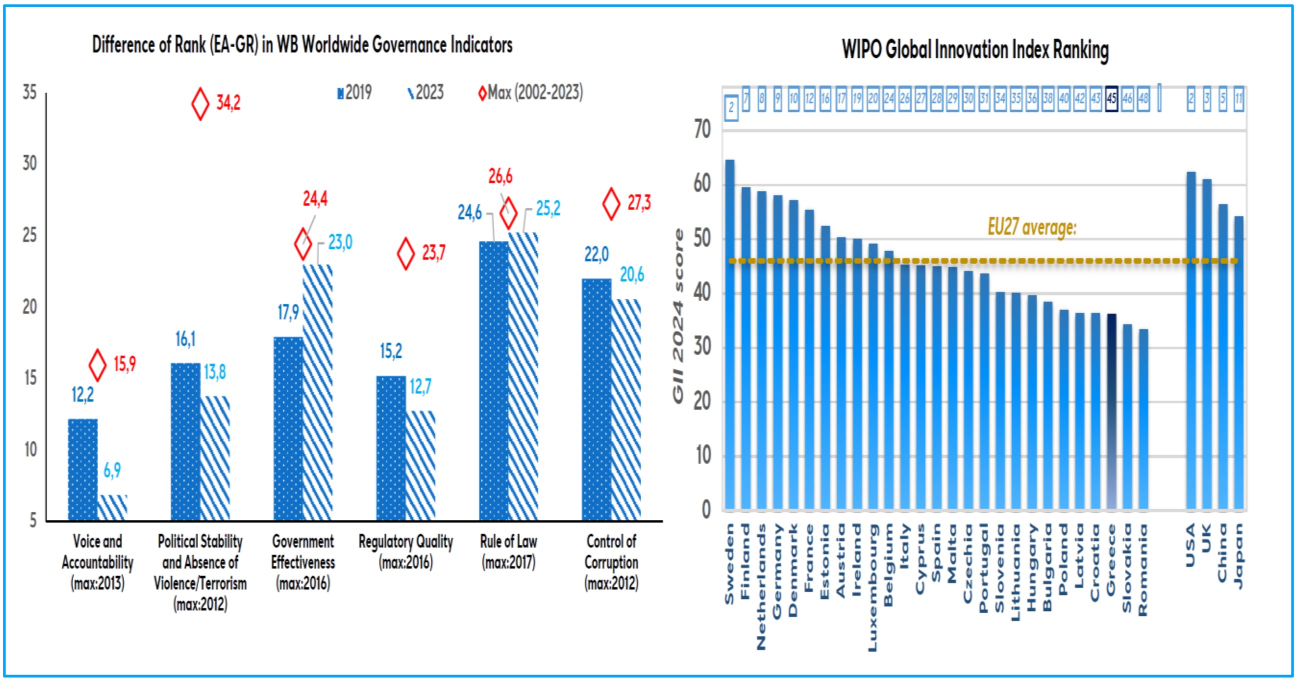
Tourism and shipping remain dominant but are vulnerable to global shocks. While strong in volume, tourism has shown signs of weakening value-added, with per capita spending by visitors declining. To build resilience, Greece must expand its export base by fostering innovation, implementing a robust industrial strategy, and enhancing economic complexity.

Policy recommendation: strengthen export diversification through a targeted industrial strategy

5. Governance & Institutions

Good governance underpins all other growth drivers. While Greece has made progress in areas such as digital public services, significant institutional weaknesses remain. Judicial inefficiencies, land-use ambiguity, and complex regulatory frameworks hamper investment and innovation.

Figure 5: Innovation and Quality Competitiveness – Still Below Euro Area Average



In the private sector, especially among SMEs, weak governance standards and limited financial literacy hinder access to finance and integration into wider value chains. Accelerating institutional reform — particularly judicial efficiency and SME governance — is essential to unlocking productive investment.

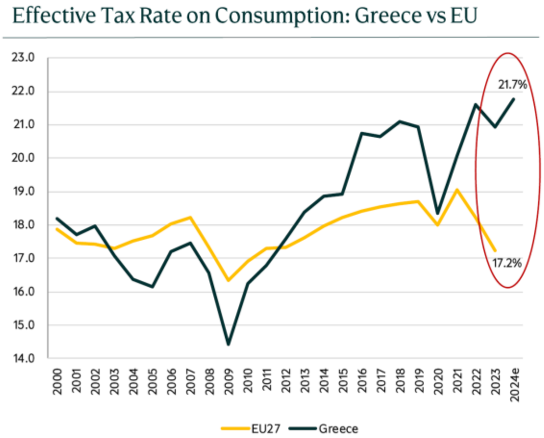
Policy recommendation: accelerate regulatory and judicial reforms

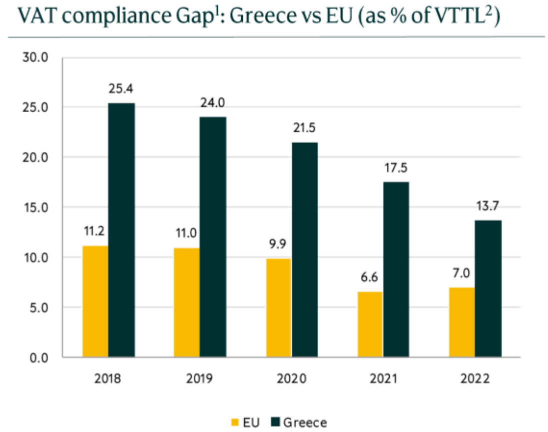
6. Legacy Concerns

Despite recent favourable macroeconomic indicators, another element that must be taken into consideration is public sentiment, which remains subdued. The reasons are twofold: i) greater tax compliance has effectively increased the tax burden, particularly on consumption; ii) public services, such as healthcare and education, are underfunded relative to EU standards, shifting costs to households.

Figure 6: Drivers of discontent: Increased tax compliance

- Improved tax compliance has raised the effective tax rate on consumption to an all time high of 21.7%
- The VAT Gap of VAT paid vs the maximum of VAT collectable has decline to 13.7%





Note: 1. VAT Compliance gap: The gap between actual VAT paid vs the theoretical max amount of VAT that could have been collected under zero tax evasion
Note: 2. The VAT compliance gap is presented in % of the VAT Total Tax Liability (VTTL). The VTTL is the estimated amount of VAT that is theoretically collectable based on the VAT legislation and ancillary regulations, assuming full compliance

In addition, even though the Greek state has been restoring its fiscal credibility, businesses remain reluctant to invest. Despite positive indicators such as record capacity utilisation, low financing costs, and substantial funding availability (including RRF and Public Investment Budget), private investment remains below expectations. This disconnect signals a structural legacy of the crisis: a reluctance to engage in long-term capital expenditure due to past volatility, policy unpredictability, and institutional weaknesses. The result is an investment hysteresis, where firms remain defensive and underinvest in capacity, technology, and innovation, even when profitability and capital productivity are high.

7. Conclusion

Greece stands at a critical juncture. Macroeconomic stability has laid the foundation for a more ambitious phase of economic transformation, yet structural vulnerabilities continue to constrain the country's long-term growth potential. Despite recent progress, challenges such as low productivity, underdeveloped export capacity, and institutional inefficiencies remain pressing. Addressing these weaknesses through targeted reforms will be essential to consolidate recovery and avoid a return to economic fragility.

The expiration of Recovery and Resilience Facility (RRF) funding at the end of 2026 presents a pivotal test of Greece's ability to sustain investment-led growth without external support. To ensure a successful transition, the country must adopt a coherent and forward-looking policy framework focused on resilience, competitiveness, and innovation. This strategy should prioritise five mutually reinforcing areas: high-impact, innovation-oriented investment; the development of innovation hubs and the modernisation of small and medium-sized enterprises (SMEs); labour market reform and targeted skills development; export diversification supported by a robust industrial policy; and reforms to judicial and public sector governance to strengthen institutional effectiveness.

Activating these five growth drivers—investment, productivity, labour, exports, and institutions—will be critical for unlocking Greece's long-term potential. With strategic clarity, institutional credibility, and broad-based public support, Greece can shift from a cautious recovery to a path of sustainable, inclusive, and innovation-led growth.

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**The views expressed are those of the authors, based on conclusions and insights drawn from the LSE Hellenic Observatory panel discussion. They do not necessarily represent the views of any mentioned institution.*